IMPACT OF THE ADMINISTRATION'S BUDGET CUTS

HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

FIRST SESSION

PART I

BALTIMORE, MD., NOVEMBER 17, 1981
INDIANAPOLIS, IND., DECEMBER 7, 1981
DETROIT, MICH., DECEMBER 8, 1981

Serial 97-35

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IMPACT OF THE ADMINISTRATION'S BUDGET CUTS

TUESDAY, NOVEMBER 17, 1981

House of Representatives,
Committee on Ways and Means,
Baltimore, Md.

The committee met at 11:05 a.m., in the fourth floor conference room, south side, City Hall, Baltimore, Md., Hon. Dan Rostenkowski (chairman of the committee) presiding.

[Material pertinent to the Baltimore hearing follows:]

FOR IMMEDIATE RELEASE
FRIDAY, NOVEMBER 6, 1981

COMMITTEE ON WAYS AND MEANS PR# 11
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D. C. 20515
TELEPHONE: (202)225-3627

THE HONORABLE DAN ROSTENKOWSKI (D., IL.), CHAIRMAN, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES ANNOUNCES REGIONAL FIELD HEARINGS ON THE IMPACT OF THE ADMINISTRATION'S BUDGET CUTS

The Honorable Dan Rostenkowski (D., Il.), Chairman, Committee on Ways and Means, U.S. House of Representatives, announced today that the Committee will hold field hearings on the impact of the Administration's budget cuts. The first of these hearings will be held in Baltimore, Maryland, on Tuesday, November 17, 1981, at City Hall in the 4th Floor Conference Room, South Side, 100 North Holiday Street, beginning at 11:00 a.m. Sites and dates for future field hearings will be announced in a subsequent press release.

The hearing will commence with testimony from The Honorable Harry R. Hughes, Governor of the State of Maryland, and The Honorable William Donald Schaefer, Mayor of the City of Baltimore. The Committee has also invited State and local public officials to testify. A panel of individuals directly affected by recent budgetary reductions will also be heard. In addition, the Committee has invited representatives from private business and charitable organizations to discuss alternatives to governmental financial assistance. Further information regarding witnesses invited to testify at the hearing, as well as a schedule of order of appearances, will be announced as soon as possible.

Major program changes and reduction in federal funds for various public assistance, health, social services and employment-related programs falling within the jurisdiction of the Committee on Ways and Means were legislated in the Omnibus Budget Reconciliation Act of 1981. The reduced funding levels and most of the program changes were effective October 1, 1981. In addition, on September 24, 1981, the Administration announced that an additional round of budget cuts will be forthcoming. The hearing will focus on the cumulative impact of the Administration's current and proposed budgetary cuts on:

> Lives and well-being of individuals: work incentives, access to needed health and supportive services, employment opportunities, food and financial assistance;
>
> The stability and adequacy of programs established by the Congress over the years to sustain and enhance the lives of disadvantaged Americans--the aged, poor and handicapped;
>
> The capacity of state and local governments to fiscally and administratively manage, under the "new federalism" mandated by the President's budget cuts, the full range of programs that have now been thrust upon them.

The Committee will also examine whether the states have the financial or administrative resources to absorb further reductions.

In addition, the Committee plans to explore the effect the recently enacted Economic Recovery Tax Act of 1981 will have on State and local revenue bases.

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FOR IMMEDIATE RELEASE
TUESDAY, NOVEMBER 10, 1981

COMMITTEE ON WAYS AND MEANS PR #12
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-3627

THE HONORABLE DAN ROSTENKOWSKI (D., ILL.), CHAIRMAN, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES FURTHER DETAILS ON THE REGIONAL FIELD HEARING TO BE HELD IN BALTIMORE, MARYLAND, ON NOVEMBER 17, 1981,

ON

THE IMPACT OF THE ADMINISTRATION'S BUDGET CUTS

The Honorable Dan Rostenkowski (D., Ill.), Chairman, Committee on Ways and Means, U.S. House of Representatives, today announced further details on the field hearing in Baltimore, Maryland, on Tuesday, November 17, 1981 (as previously announced in press release #11), to assess the impact of the Administration's budget cuts.

The Committee will begin its day with a visit to the John F. Kennedy Institute for Handicapped Children, a regional center specializing in care for severely and multiply handicapped children and their families. The Institute faces significant cutbacks in services and possible closure of some of its facilities as a result of recent budget reductions. Committee members will tour the Institute's various specialized care wings, and discuss with staff the scope and level of services currently offered and as impacted by funding shortfalls.

The Committee has also invited State and local officials and members of the private sector to assess the effect of recent budget cuts. The testimony to be taken will be from witnesses appearing individually and in panels on particular subject areas as listed below:

ITINERARY

8:30 a.m. - Leave Longworth House Office Building (corner of New Jersey & Independence Avenue, Washington, D.C.)

SITE VISIT:

9:30 a.m. - The John F. Kennedy Institute for Handicapped Children, Baltimore, Maryland (one-hour tour)

PUBLIC HEARING - BEGINNING AT 11:00 A.M.

FOURTH FLOOR CONFERENCE ROOM, SOUTH SIDE, BALTIMORE CITY HALL

The Honorable Harry Hughes, Governor, State of Maryland

The Honorable William Donald Schaefer, Mayor, City of Baltimore, accompanied by George Piendak, Chief, Bureau of Budget and Management Research

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Panel on Human Impact:

Rodney Trump, Vice President, UAW Local #239

Dr. Marianne LaFever, Mercy Southern Health Center

Louise W. McGowens, Waxter Senior Center

***

Panel on Private Alternatives:

Dr. Timothy Armbruster, Executive Director,
Goldseker Foundation of Maryland, Inc.

Allen Cooper, Executive Director,
United Way of Central Maryland

Bernard Manekin, Chairman,
Greater Baltimore Committee

***

Panel of State Administrators:

H. Louis Stettler III, Secretary,
Maryland Department of Budget and Fiscal Planning

Kalman R. Hettleman, Secretary,
Maryland Department of Human Resources

Charles R. Buck, Jr., Secretary,
Maryland Department of Health and Mental Hygiene

***

Panel of City Administrators:

Marian Pines, Executive Director,
Mayor's Office of Manpower Resources

John L. Crew, Sr., Director,
Baltimore City School System

Bernard L. Berkowitz, Executive Director,
Baltimore Economic Development Corporation

***
*

Sites and dates for future field hearings will be announced in a subsequent press release.

*

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NINETY-SEVENTH CONGRESS
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COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

TELEPHONE (202) 225-3625

November 13, 1981

Background Information Prepared for the

Baltimore Hearings

On the Impact of Changes and Budget Cuts in Programs

Under the Jurisdiction of the Committee on Ways and Means

November 17, 1981, 11:00 a.m.

Fourth Floor Conference Room
City Hall

Baltimore, Maryland

Before the

Committee on Ways and Means

U.S. House of Representatives

I. Profile of Witnesses and the City of Baltimore

Panel on Human Impact*

Rodney Trump, Vice President, UAW Local #239 --

Mr. Trump moved to Baltimore in 1964, and began employment with General Motors in 1965. He is now employed by the GM assembly division, and is the UAW Education Coordinator for organizational development and quality of working life. Mr. Trump is a member and officer of UAW Local #239. He is married and has a school-age son.

Accompanying Mr. Trump will be Ronald E. Metzger, who has recently (June, 1981) been laid-off by GM. Mr. Metzger had been employed by GM since 1968 and has worked on the truck assembly line, GM assembly division for 13 years. He is a member of UAW Local #239. Mr. Metzger was born and raised in Maryland, and graduated from Dundalk Senior High School. He is married and has 3 children.

Dr. Marianne La Fever, Mercy Southern Health Center --

Dr. La Fever is a family practice physician (a general practitioner) who is on the staff of Mercy Southern Health Center and sees patients initially as they walk in.

Mercy Southern Health Center is a community health center in the inner city, sponsored by Mercy Southern Hospital. It provides essential health services for the poor and disadvantaged population of the inner city, treating both paying and non-paying patients.

Louise W. McGowens, Waxter Center for Senior Citizens --

Mrs. McGowens was raised in Baltimore City and attended city public schools. She is employed part-time at the Waxter Center and, in addition, devotes volunteer hours to the Center each week. Mrs. McGowens has received special training as a nurse's aide from the American Red Cross. In addition to her civic activities, Mrs. McGowens is an active member of her church. She has raised 5 children and has 14 grandchildren.

The Waxter Center is the focal point for Baltimore's senior citizens. Waxter Center is a multi-purpose center designed to keep senior citizens healthy, independent and non-institutionalized. The Center serves approximately 10,000 city residents 60 years of age and older. It is open

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*This panel will discuss from their own personal experiences the impact of the budget cuts on themselves and other individuals focusing on employment and delivery of health services and social services programs.

7 days a week and provides a wide range of services: educational programs, recreational facilities, counseling, social work services, health services and eating facilities for breakfast and lunch.

Panel on Private Alternatives*

Dr. Timothy Armbruster, Executive Director,
Goldseker Foundation of Maryland, Inc. --

Goldseker Foundation is a private foundation with assets of $22 million. Goldseker issues about $700,000 - $800,000 in new grants each year. These grants cover a wide range of activities within the city: housing, education, health care, human services, economic development and neighborhood self-help projects. The grants are given to organizations across a wide spectrum, from Johns Hopkins Hospital to community centers.

Allen Cooper, Executive Director,
United Way of Central Maryland --

Mr. Cooper is the chief professional officer of United Way of Central Maryland. United Way's function is to raise and allocate money in support of the voluntary human service system in the Central Maryland area (Baltimore City and surrounding counties). Last year United Way of Central Maryland raised $20 million and supported 100 agencies.

Bernard Manekin, Chairman,
Greater Baltimore Committee --

The Greater Baltimore Committee is an organization of 900 key executive officers of major corporations and banks in Baltimore. Somewhat like a chamber of commerce, the Greater Baltimore Committee is the spokesman for the private sector in the city. Some of its members are participants in the Mayor's "Blue Chip In" program (mentioned by President Reagan as a prime example of successful voluntarism), which enlists businesses in economic revitalization and social services projects in the city.

Mr. Manekin is chairman of a major corporation, Manekin Associates, which is an industrial/corporate real estate firm.

---

*This panel will discuss voluntarism and the capacity of private business and charitable organizations to fill the gap created by reduced availability of governmental funds for assisting disadvantaged citizens.

PROFILE OF BALTIMORE

Although the Census Bureau classifies Baltimore as a Southern city, it more closely resembles the declining industrial centers of the north than the growing cities of the sunbelt. The 1980 Census reports 787,000 residents in the city of Baltimore, down 13 percent from 1970. Over the same decade the entire metropolitan area grew moderately from 2.1 to 2.2 million.

Baltimore ranks high by most measures of urban distress. The loss of middle income residents has left a city population that is relatively poor (21 percent are below the federal poverty level) and predominately black (56 percent are non-white). The unemployment rate currently exceeds 10 percent. Baltimore's economic base--a mix of port-centered activities, diversified manufacturing, and business, institutional and government services--has grown more slowly than the national average and has suffered absolute decline in some sectors. The city's housing stock is old, and in some areas shows signs of deterioration. Despite visible signs of revitalization, many downtown areas are blighted and much of the public infrastructure, such as roads and bridges, is in need of repair.

Declining population, per capita income, employment, and economic activity has strained local fiscal capacity. On the revenue side, Baltimore's property tax base has grown only one-half percent a year since 1970, far below the statewide average. To compensate, city property tax rates have increased 26 percent over the last 10 years and are generally twice that found in surrounding counties. City residents pay a local income tax in addition to high property taxes. Despite a high tax effort and improved governmental management, local revenues have not kept pace with the cost of providing services for a growing dependent population and an aging urban infrastructure. As a result, Baltimore has become increasingly dependent upon state and federal funds to finance basic municipal functions. For the current fiscal year, Baltimore anticipates receiving approximately $258 million in federal grants, $25 million in general revenue sharing funds and an additional $503 million in state funds. Combined intergovernmental sources account for more than half (53.3 percent) of total city general revenues.

II. Examples of Budget Reductions in AFDC, Medicare and Social Security

AFDC Impact of Earnings Disregard Changes

For a family of 3 (mother and 2 children) in Maryland, the maximum AFDC payment is $270 per month. This family of three loses eligibility for any AFDC assistance when earnings exceed $405/month (150% of State standard of need). With no earnings this family will receive $270 in AFDC benefits plus $162 in Food Stamps for a total net income of $432 per month. The budget reductions did not affect this family with no earnings. The three examples below illustrate how net income changes as earnings increase under prior and current law.

Example 1: $200 in monthly earnings, EITC of $20, $100 in work expenses including day care:

	Previous Law	Current Law Months 1-4	After 4 Months
AFDC	$243	$238	$192
Food Stamps	117	118	131
Net Earnings (includes EITC)	120	120	120
Total Net Income	480	476	443

Example 2: $300 in monthly earnings, EITC of $30, $150 in work expenses including day care:

	Previous Law	Current Law Months 1-4	After 4 Months
AFDC	$220	$187	$115
Food Stamps	98	106	127
Net Earnings (includes EITC)	180	180	180
Total Net Income	498	473	422**

Example 3: $581 in monthly earnings (full-time minimum wage job), EITC of 32, $300 in work expenses including day care:

	Previous Law	Current Law Months 1-4	After 4 Months
AFDC	$181	0*	0*
Food Stamps	42	92	92
Net Earnings (includes EITC)	313	313	313
Total Net Income	536	405**	405**

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*Earnings exceed 150% of "State standard of need". Possibly loses medicaid.

**Less income than the same family with no wage income.

MEDICARE

Increase in Beneficiary Copayments or Deductibles

The 1981 budget cuts will result in increased out-of-pocket expenses for medicare beneficiaries for both hospital (Part A) and physician (Part B) services.

The hospital inpatient deductible and corresponding coinsurance amounts will be increased beginning in 1982. Prior to the budget cuts, the inpatient hospital deductible would have increased from $204 in 1981 to $228 in 1982 -- an increase of 12 percent. Now an elderly person entering the hospiital in 1982 will pay a deductible of $260 -- an increase in out-of-pocket expenses of 27 percent compared to 1981.

The deductible for physicians' services under medicare was also increased 25 percent beginning in 1982 from $60 a year to $75. In addition, as a result of the budget cuts there is a new rule that requires the part B deductible to be met again in the new year even though the beneficiary met the deductible late in the previous year. Thus, a beneficiary who had met the $60 deductible by incurring expenses in December 1981 will need to meet a $75 deductible in 1982 before medicare will begin to make payment for physician services. (Under the old law, the 1982 deductible for this beneficiary would already have been met.)

SOCIAL SECURITY

Repeal of the Minimum Benefit

For an individual who turned 65 in 1960, the minimum benefit was $33 per month. This individual with a spouse who was primarily a homemaker, would have received $49.50 per month or $594 per year. Primarily to keep pace with inflation, these benefits have increased to $3,066 per year as of July, 1981.

Based upon the formula, the couple could have received anywhere from 25 to 100 percent of that minimum benefit in 1960 based solely on his earnings pattern. Thus in April of 1982, their benefit could be reduced by up to $2,300 per year.

For a widow, age 86, who is receiving a survivor benefit based upon someone who received the minimum benefit, the loss could be $1,533 per year.

This provision will affect approximately 1,300,000 individuals and will result in an average loss of $1,000 per year.

Elimination of Insurance Benefits for Children Attending Postsecondary Schools

In 1975, John Doe and his mother began to receive a social security check of $400 per month, $200 for each beneficiary as the result of the death of John's father. John is currently a senior in high school and is receiving a check of $335 per month.

When John graduates from school in July of 1982, his monthly benefit will end. Under prior law, assuming 10 percent inflation each year, he would have received $20,544 throughout his four year college program. Under current law, he will receive no social security benefits.

III. MARYLAND AFDC PROGRAM SUMMARY

Recipients (as of November 1980):

Number of Families	80,242
Individuals	218,980
Children	148,294 (68%)
AFDC-UP Families	1,278 (1.6%)
Average family size	2.7 members
Percent employed (1979)	15.7 percent

Monthly Benefits for a family of three (as of July 1981):

State "Standard of Need"	$270.00
Maximum amount paid	$270.00
Percent of "need" paid	100%
Maximum monthly earnings at which a family of three loses eligibility for AFDC under provisions contained in FY 1982 Budget Reconciliation Act. (150 percent of State "Standard of Need")	$405.00
Maximum monthly earnings at which a family of three lost eligibility for AFDC, prior to FY 1982 Budget Reconciliation Act (assuming work expenses equal 20 percent of earnings and child care expenses of $150 per month)	$944.00

Program Options (as of October 1, 1980):

1.	Benefits for Unemployed Parents	YES
*2.	Benefits for unborn child	YES
*3.	Benefits for youngsters over 17 who are in school	YES
4.	Emergency Assistance	YES
5.	Local Government Shares in AFDC Costs	NO

Expenditures (preliminary fiscal 1980 estimates):

Total	$199,339,526
Federal Share	99,669,764
Percent paid by Federal	50%

*Program options repealed or restricted by FY 1982 Budget Reconciliation

IV SUMMARY OF MARYLAND UNEMPLOYMENT COMPENSATION PROGRAM AND UNEMPLOYMENT STATISTICS

UNEMPLOYMENT

	August 1980	August 1981
Total Unemployment Rate:	6.6	7.2
(for Baltimore):	(7.9)	(8.5)
	10/11/80	10/17/81
Insured Unemployment Rate (percent of workers covered under State unemployment compensation program claiming benefits):	2.7	2.9
Extended Benefits "Trigger Rate":	3.54 (177%)	2.77 (112%)

UNEMPLOYMENT COMPENSATION

	10/11/80	10/17/81
Number of Claimants:	42,339	45,135

	As of January 1981
Maximum weekly payment:	$140.00
Maximum number of weeks of State benefits:	26
Requirements for maximum:	$5,040 in base period $3,336 in high quarter
State unemployment maximum/ tax:	
base:	$6,000
rate:	6.0 percent
Average State unemployment tax rate:	3.8
Outstanding Federal loans:	0
Total State benefits paid in 1980:	$192,115,300

V. Impact of Budget Reductions Upon the State of Maryland

The following information is condensed from a memorandum prepared by the Department of Human Resources -- State of Maryland, dated September 15, 1981:

Table I shows the number of AFDC, Food Stamp and Title XX recipients who no longer will receive benefits or who will receive reduced benefits as a result of the Budget Reconciliation Act of 1981. This table was prepared October 28, 1981, and represents additional information to the September 15 report.

Based on the state's analysis of new AFDC regulations which are effective October 1, 1981, approximately 35,000 AFDC recipients statewide will no longer receive benefits and approximately 3,500 will receive reduced benefits. Under the new Food Stamp regulations which are effective October 1, 1981, approximately 21,000 recipients will no longer be eligible for food stamps and approximately 226,500 individuals will receive reduced benefits as a result of the changes.

Based on the approved FY 1982 fund and staff reduction plan, the Department of Human Resources estimates that 11,432 persons will no longer receive Title XX Social Services and 23,293 will receive a reduced level of service.

Example of Reductions in Title XX Social Services:

a. Homemaker Services
The provision of In-Home Services to families experiencing temporary crises or stress in order to prevent family breakup and avoid placing children at risk in substitute care. It is estimated that approximately 500 clients will be eliminated from the Homemaker program. All of the approximately 3,000 clients remaining in the program may suffer some degree of service reduction as cases and service tasks are prioritized.

b. Services to Non-Aged Adults (SANA)
The provision of case management and counseling services to low income adults who are either disabled or in crises. It is estimated that approximately 1,000 clients will be eliminated from the program. All 3,000 clients remaining may suffer a reduction in service hours. Many cases normally accepted for continuing service may be served on a one-time-only basis and may return more frequently for crisis service.

c. Community Home Care
The provision of case management and In-Home Service to the aged in order to avoid institutionalization. It is estimated that 800 clients will be eliminated from the Community Home Care program. All 4,000 clients remaining in the program may suffer some degree of service reduction as cases and service tasks are prioritized.

d. Services to Families with Children
The provision of intake, case management, counseling, crisis intervention, and preventive services to families and children. It is estimated that 2,500 clients will be eliminated from the Services to Families with Children program. All 10,000 remaining clients may suffer a reduction in service as we redirect the program toward short-term, crisis intervention services.

e. Local Department Day Care Centers
The Department presently operates 26 centers in various subdivisions throughout the state. These day care centers were originated at a time when the Department was attempting to meet the growing need for child day care in many communities throughout the state where there were no private alternatives. Maryland is the only state which directly operates day care centers. In the ensuing ten years, there has been a growth in the availability of private child day care programs, and the cost per child to provide care in state centers is now significantly greater than the cost of purchasing care. The Department initiated a study of the possibility of closing state centers, and the General Assembly, in the past session, mandated that each state center be closed, unless comparable, accessible care could not be purchased at a lower cost.

The Department's study of the state centers has been accelerated by the need to consider center closings in the federal fund reduction plan. Our present projection is that approxmiately 21 of the 26 centers will be closed on a staggered schedule during fiscal year 1982. At the same time, the state operated day care centers will be conformed in the staff/child ratios to the state licensing standards set by the Department of Health and Mental Hygiene, rather than the old federal staff/child ratios. The combined effect of these two courses of action will enable the Department to save large amounts of money yet generally maintain the current level of children served: specifically we will be able to (a) continue care and purchase alternatives for those children who will be displaced by the closing of the present agency operated centers, and (b) reduce costs in agency operated centers by approximately $1.8 million in state fiscal year 1982.

Work Incentive Programs

The Reagan Administration has proposed continuing the level of funding for the nationwide WIN program at the FFY 1981 level ($365 million) providing no allowance for increases in salary or increases in the cost of leases, supplies, travel, or on-the-job training contracts. In addition, federal WIN funds allocated to Region III have been reduced under a complex DOL formula which disadvantages states with entrenched urban unemployment problems, and corresponding lower placement performance. As a result of the stand-still nationwide budget in FFY 1982, and the allocation formula, the WIN Division will have to reduce the number of funded positions from 215 to 185 by October 1, 1981.

As a result of the staff reduction, the number of WIN registrants who will enter employment during the Federal Fiscal Year will decline by approximately 10 percent, from 6,800 to 6,100. There will be fewer staff available to develop jobs for AFDC recipients. The amount of time spent by WIN staff and SAU staff with each WIN registrant will be reduced. An increased number of WIN registrants will have to be placed into the "unassigned recipient component" and will not receive follow-up services. The net effect of reduced WIN services will be lower employment rates among AFDC recipients and higher AFDC costs.

TABLE I: IMPACT ON MARYLAND JURISDICTIONS OF FEDERAL BUDGET CUTS

Local Departments	(1) AFDC Recipients			(2) Food Stamps, Participating Individuals			(3) Title XX Social Services - Persons		
	Removed[a]	Reduced[b]	Total	Removed[a]	Reduced[b]	Total	Removed[a]	Reduced[b]	Total
Allegany	385	39	424	400	4,316	4,716	89	236	325
Anne Arundel	1,645	165	1,810	1,116	12,041	13,157	920	1,241	2,161
Baltimore	1,890	189	2,079	1,222	13,177	14,399	671	1,190	1,861
Calvert	280	28	308	190	2,045	2,235	42	168	210
Caroline	175	17	192	127	1,363	1,490	76	266	342
Carroll	210	21	231	147	1,591	1,738	86	235	321
Cecil	350	35	385	274	2,953	3,227	53	105	158
Charles	526	52	578	316	3,408	3,724	63	225	288
Dorchester	280	28	308	168	1,818	1,986	11	64	75
Frederick	280	28	308	232	2,499	2,731	80	265	345
Garrett	141	14	155	147	1,591	1,738	59	148	207
Harford	806	80	886	442	4,771	5,213	158	423	581
Howard	175	17	192	147	1,591	1,738	82	236	318
Kent	70	7	77	84	909	993	17	78	95
Montgomery	1,294	130	1,424	737	7,951	8,688	537	1,273	1,810
Prince George's	3,464	347	3,811	1,960	21,127	23,087	486	1,779	2,265
Queen Anne's	141	14	155	84	909	993	18	41	59
St. Mary's	350	35	385	211	2,272	2,483	6	121	127
Somerset	141	14	155	147	1,591	1,738	36	64	100
Talbot	105	11	116	84	909	993	23	78	101
Washington	350	35	385	337	3,635	3,972	185	336	521
Wicomico	455	46	501	379	4,089	4,468	114	321	435
Worcester	175	17	192	127	1,363	1,490	33	93	126
Total Counties	13,688	1,368	15,056	9,077	97,916	106,993	3,845	8,986	12,831
Baltimore City	21,312	2,132	23,444	11,923	128,584	140,507	7,587	14,307	21,894
State	35,000	3,500	38,500	21,000	226,500	247,500	11,432	23,293	34,725

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[a] Persons who will no longer receive benefits or services.

[b] Persons who will receive a reduced level of benefits or services.

JR:d
10/28/81

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VI. Data on National Impact of Budget Reductions

The following four tables highlight the impact of budget reductions on programs under the jurisdiction of the Committee on Ways and Means. Table 1 contains state-by-state estimates from the Department of Health and Human Services on the number of families who will no. longer be eligible for the Aid to Families with Dependent Children (AFDC) program as a result of the change in earnings disregards and the counting of stepparent income. The 400,000 families who lose eligibility for AFDC will also lose medicaid benefits. This table also contains estimates on the number of families who will have reduced benefits as a result of the 1981 Budget Reconciliation Act.

Table 2 shows the impact state by state of the loss in Title XX monies as a result of the reduced authorization level.

Table 3 illustrates the number of individuals and/or families and the average dollar loss per year for each of the major changes enacted in the Budget Reconciliation Act of 1981.

Table 4 is the total number of dollars saved or reduced benefits by major program. The Budget Reconciliation Act reduced spending by $8.9 billion in fiscal year 1982 and $29.1 billion from fiscal year 1982 to 1984 for programs under the jurisdiction of the Committee on Ways and Means.

TABLE 1

SUMMARY TABLE SHOWING FAMILIES THAT LOSE, OR ARE MADE INELIGIBLE BY CUMULATIVE EFFECTS OF PROPOSALS, FY 82*

	Families With Reduced Benefits		Families Made Ineligible	
	#	%	#	%
Alabama	4900	7.4	9291	14.0
Alaska	230	3.7	542	8.8
Arizona	1679	10.0	1400	8.3
Arkansas	2880	8.8	4180	12.8
California	42010	8.2	51017	10.0
Colorado	3006	9.9	4726	15.5
Connecticut	3836	7.9	8019	16.4
Delaware	870	7.2	1240	10.3
District of Columbia	2529	7.4	3311	9.6
Florida	3746	4.0	10307	11.0
Georgia	2452	2.9	9582	11.3
Hawaii	3034	14.8	3030	14.8
Idaho	499	6.1	1000	12.1
Illinois	14606	6.3	15983	6.9
Indiana	3756	6.9	10153	18.7
Iowa	3698	10.7	5217	15.0
Kansas	1553	6.3	5666	23.0
Kentucky	1821	2.8	9269	14.0
Louisiana	3335	4.7	5081	7.2
Maine	1592	7.3	4794	22.1
Maryland	3793	4.8	10853	13.8
Massachusetts	12048	8.9	25971	19.1
Michigan	22059	9.9	20622	9.2
Minnesota	5925	11.2	13901	26.3
Mississippi	4097	6.6	11528	19.0
Missouri	5364	7.6	13948	19.7
Montana	290	4.5	1744	27.3
Nebraska	1392	11.0	1629	12.8
Nevada	654	16.7	0	1.0
New Hampshire	1184	16.0	591	8.0
New Jersey	13638	8.5	11777	7.3
New Mexico	1444	7.9	580	3.2
New York	19367	5.0	15221	3.9
North Carolina	3898	4.8	9902	12.2
North Dakota	621	12.1	1051	20.4
Ohio	7672	4.2	15899	8.8
Oklahoma	1133	3.6	1812	5.8
Oregon	4444	9.6	3348	7.3
Pennsylvania	15529	6.8	24632	10.8
Rhode Island	2643	13.8	1920	10.0

South Carolina	2127	3.8	6171	11.1
South Dakota	741	9.5	925	11.9
Tennessee	1126	1.8	7085	11.0
Texas	4058	4.1	8119	18.3
Utah	1596	11.4	2084	14.9
Vermont	339	4.2	1356	16.7
Virginia	4469	7.1	8227	13.1
Washington	3166	5.7	2253	4.1
West Virginia	1411	5.0	1406	14.9
Wisconsin	10183	13.4	12068	15.9
Wyoming	153	5.7	408	15.3
U.S. TOTAL	258,528	6.9	400,836	10.7

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*These estimates incorporate the effect of the following seven proposals: (1) counting stepparent income, (2) eliminating eligibility of children age 18-20, (3) counting EITC advance payments, (4) standardizing work expense and child care deductions and applying the 1/3 disregard to net income, (5) eliminating 30 and 1/3 disregard for determining eligibility after four months, (6) eliminating benefits when gross income exceeds 150 percent of need standard, and (7) the $10 minimum payment.

TABLE 2

FY 1982 Federal Allotments to States for Social Services
(Title XX Block Grant)
Under Prior and Current Law
[in thousands of dollars]

Total	Prior Law $3,000,000	Current Law $2,400,000	Amount of Reduction $600,000
Alabama	51,373	40,989	10,384
Alaska	5,534	4,215	1,319
Arizona	33,394	28,640	4,754
Arkansas	29,714	24,089	5,625
California	309,326	249,403	59,923
Colorado	37,783	30,442	7,341
Connecticut	42,458	32,749	9,709
Delaware	7,933	6,270	1,663
District of Columbia	8,941	6,723	2,218
Florida	120,765	102,631	18,134
Georgia	69,746	57,575	12,171
Hawaii	12,471	10,168	2,303
Idaho	12,335	9,947	2,388
Illinois	153,055	120,313	32,742
Indiana	73,604	57,849	15,755
Iowa	39,555	30,695	8,860
Kansas	32,290	24,899	7,391
Kentucky	48,074	38,576	9,498
Louisiana	54,767	44,298	10,469
Maine	14,952	11,854	3,098
Maryland	56,538	44,424	12,114
Massachusetts	78,633	60,451	18,182
Michigan	125,494	97,553	27,941
Minnesota	55,339	42,960	12,379
Mississippi	33,108	26,564	6,544
Missouri	66,339	51,811	14,528
Montana	10,713	8,293	2,420
Nebraska	21,454	16,543	4,911
Nevada	9,568	8,419	1,149
New Hampshire	12,090	9,705	2,385
New Jersey	99,937	77,595	22,342
New Mexico	16,915	13,698	3,217
New York	240,547	185,000	55,547
North Carolina	76,411	61,895	14,516
North Dakota	8,955	6,881	2,074
Ohio	146,267	113,769	32,498
Oklahoma	39,419	31,875	7,544
Oregon	34,444	27,744	6,700
Pennsylvania	159,897	125,044	34,853
Rhode Island	12,663	9,979	2,684
South Carolina	39,964	32,865	7,099
South Dakota	9,391	7,271	2,120
Tennessee	59,701	48,376	11,325
Texas	182,373	149,922	32,451
Utah	18,633	15,395	3,238
Vermont	6,720	5,384	1,336
Virginia	70,837	56,331	14,506
Washington	53,513	43,518	9,995
West Virginia	25,598	20,547	5,051
Wisconsin	64,335	49,577	14,758
Wyoming	6,134	4,963	1,171

TABLE 3

Number of Individuals/Families and the Average Dollar Loss Per Year for the Major Changes Enacted in the Budget Reconciliation Act of 1981

Program Change	Number of Individual/Families	Average Dollar Loss (full year basis)
AFDC		
Tightening of Earnings Disregards	260,000 families with reduced benefits (6.9% of caseload) 300,000 families with benefits eliminated (8% of caseload)	$1,400 plus loss of Medicaid for the families eliminated
Counting of Step-parents Income	100,000 families (2.7% of caseload)	$1,950 plus Medicaid
Social Security		
Elimination of Minimum Benefit	1,300,000 individuals	$1,000
Reduced Insurance Benefits for Post-secondary Education	250,000 individuals with benefits eliminated beginning 6/82	$3,000
	400,000 individuals with reduced benefits beginning 9/82	$1,970
Termination of Parent's Benefit When Child Attains Age 16	By 8/83 200,000 individuals will have benefits eliminated	$2,500
Restriction on Lump Sum Death Benefit	785,000 payments	$ 255
Unemployment Compensation		
Elimination of National Trigger*	640,000 individuals	$1,080
Redefinition of State Trigger Calculation*	850,000 individuals	$1,160
Medicare		
Increase in Beneficiary Copayments or Deductibles	17,000,000	$ 22

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*Highly sensitive to economic conditions. These estimates are from the Department of Labor mid-session review economic projections and are for fiscal year 1982.

TABLE 4

BUDGET IMPACT OF RECONCILIATION CONFERENCE AGREEMENT ON PROGRAMS WITHIN WAYS AND MEANS JURISDICTION[1]

	Fiscal Year (in millions of dollars)		
	1982	1983	1984
Trade Adjustment Assistance	-1,335	- 840	- 600
Social Security	-2,197	-3,778	-4,611
Unemployment Compensation[2]	-1,483	- 737	- 446
Aid to Families with Dependent Children	-1,026	-1,255	-1,303
Child Support Enforcement	- 132	- 143	- 157
Supplemental Security Income	- 95	- 123	- 120
Social Services Block Grant	- 699	- 749	- 799
Low-Income Energy Assistance	- 372	- 672	- 992
Medicare	-1,598	-1,310	-1,522
TOTAL[2]	-8,937	-9,607	-10,550

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[1] Based upon the economic assumptions of the first budget resolution.

[2] Does not include the revenue impact of the unemployment loan reform provisions.

VII. Impact of the Economic Recovery Tax Act of 1981 on State and Local Governments

1. Erosion of State and Local Income Tax Bases

The capital cost recovery provisions of the 1981 Act will significantly erode the base of State corporate income taxes and, to a lesser extent, State and local individual income taxes. An analysis of this impact done by Citizens for Tax Justice concluded that the cumulative effect for the six-year period 1981 to 1986 will be a revenue loss of $27.5 billion. These estimates assume that all States will conform their income tax laws to the new Federal capital cost recovery provisions. In 25 States that conformity will occur automatically unless legislative action is taken to amend conformity statutes. The business community will undoubtedly press for conformity in other States on simplification grounds. The detailed estimates given below overstate this revenue impact because conformity is assumed in all cases and because they are based on the Administration's optimistic forecast for increased corporate profits.

1981-86 Income Tax Losses From Conforming To The New Federal Depreciation Rules, All States
(Millions of Dollars)

	1981	1982	1983	1984	1985	1986	6-Year Total.
Corporate	480	1,335	2,740	4,040	6,120	8,775	23,490
Individual	50	300	500	720	1,020	1,445	4,040
Total	530	1,635	3,240	4,760	7,140	10,230	27,530

2. Impact on the Market for Tax-Exempt Bonds

The 1981 Act will weaken demand for the tax-exempt securities issued by State and local governments, and hence put upward pressure on tax-exempt interest rates, for three reasons:

a. The reduction in the maximum individual income tax rate from 70 to 50 percent will weaken the demand on the part of high income individuals for tax-exempt bonds.

b. The leasing rules that are a part of the capital cost recovery provisions open a new avenue of tax minimization for the commerical banks which have traditionally been the largest purchasers of newly issued tax-exempt securities.

c. All-Savers certificates compete with newly issued short-term tax-exempt securities.

VIII. Summary of Major Budget Reconciliation Reductions

Summary of Major AFDC Amendments in the FY 1982 Budget Reconciliation Bill

1. Limitation on Earnings Disregards: Limits the work expense disregard to $75 per month for full-time employment, and caps the child care disregard at $160 per month per child.

   The $30 plus one-third disregard is allowed only during the first 4 consecutive months in which a recipient has earnings in excess of the standard work expense and child care disregards.

2. Income Limit for AFDC Eligibility: Limits eligibility for AFDC to families with gross incomes at or below 150 percent of the State's standard of need.

3. Determination of Resources: Limits allowable resources to $1,000 (equity value) per family, excluding the home, clothing, furniture and one automobile with an equity value not in excess of $1,500.

4. Treatment of Earned Income Tax Credit (EITC) Advance Amount Under AFDC: In determining AFDC benefits, States must assume that an individual is receiving the EITC advance payment that he or she is eligible to receive, regardless of whether the person has applied for the advance payment.

5. Income of Stepparents Living With Dependent Child: Requires the net income of a stepparent be counted in determining eligibility and benefit amounts for AFDC recipients.

6. Community Work Experience Program: Authorizes States to establish community work experience programs for AFDC recipients. Under these programs, recipients would be required to work on public projects in return for their AFDC grants. The amount of work required in relation to the family's AFDC payments must be consistent with Federal or State wage provisions. Persons exempt under present law from participation in the WIN program would also generally be exempt from participation in this program except that parents caring children under age 6 (but not under age 3) could be required to participate if child care is available.

7. Age Limit of Dependent Child: Limits benefits to children through age 17. A State could opt to provide benefits through age 18 to those who are completing high school.

8. Limitation on AFDC for Pregnant Women: Prohibits AFDC for pregnant women with no other children until the 6th month of pregnancy. However, a State could provide medicaid for AFDC-eligible pregnant women with no children from the determination of pregnancy.

9. Eliminates Payments of Aid in Amounts Below $10: Prohibits States from making AFDC payments of less than $10 a month. Individuals denied a benefit as a result of this provision would be considered recipients for all other purposes; including medicaid eligibility.

10. Retrospective Accounting and Monthly Reporting: Requires States to determine monthly benefits "retrospectively," on the basis of the actual income of the previous month, rather than on the estimated income of the forthcoming month. States would have to require recipients to provide monthly reports on income, family composition, resources, etc.

11. Cost of Collection and Other Child Support Enforcement Services for Non-AFDC Families: Requires States to retain a fee equal to 10 percent of the support collected. This 10 percent fee would be charged against the absent parent and added to the amount of the collection.

SUMMARY OF MAJOR MEDICARE AMENDMENTS IN THE FY 1982 BUDGET RECONCILIATION BILL

Provisions Affecting Beneficiaries

1. Part A Coinsurance and Deductible

The part A coinsurance and deductible are made more current by adding $5 to the base figure of $40 in the formula that is used in the annual determination of the inpatient hospital deductible. As a result of this provision, the part A deductible, which was scheduled to increase from $204 in 1981 to $228 in 1982, will rise instead to $260 in 1982. There will be a corresponding increase in medicare part A coinsurance amounts.

2. Increase in Part B Deductible

The part B deductible is increased from $60 to $75 beginning in 1982. Also, beginning in 1982, beneficiaries will no longer be permitted to count expenses incurred in the last quarter of the previous calendar year in determining whether they have met the annual part B deductible for the current year.

3. Medicare Secondary in the Case of Renal Beneficiaries

The Budget Reconciliation Act provides that medicare is the secondary payor for the first 12 months after an individual has been determined to be eligible for end stage renal disease benefits under the medicare program but only where the individual has private health insurance under a group health plan. The Act requires medicare to pay first and recoup from the insurance company such amounts as would normally be payable under such plan in order to minimize inconvenience to the beneficiary. The Act also denies, as a business expense deduction under the tax code, the expenses paid or incurred by an employer for a health plan, if such plan contains a discriminatory provision that reduces or denies payment for renal patients.

Provisions Affecting Providers

1. Routine Nursing Salary Cost Differential

The 8.5 percent differential currently applied to inpatient hospital routine nursing salary costs will be lowered to 5 percent.

2. Limits on Reimbursement to Hospitals

Medicare reimbursement limits on inpatient routine hospital costs, currently set at 112 percent of the mean, will be set at a level no higher than 108 percent of the mean.

3. Adjustment in Payment for Inappropriate Hospital Services

Additional hospitals will have their reimbursement cut under a change in the medicare law that provides for reduced reimbursement (at the long-term care rate) for patients who no longer require acute hospital services but who must remain in the hospital because no long-term care bed is available in the area.

Under prior law, there was no reduction in reimbursement if the hospital's annual occupancy rate was at least 80 percent. Under the new law, the reduction will occur if there is an excess of hospital beds either in the hospital or in the geographic area of the hospital. (A somewhat more liberal rule applies to public hospitals).

4. Limits on Reimbursement to Home Health Agencies

The Act reduces from the 80th percentile to the 75th percentile the medicare reimbursement limits currently applied to home health agency costs.

Administrative Changes

1. Reduction in Number of PSROs

The Budget Reconciliation Act permits the Secretary of HHS to terminate no more than one-half of all PSROs prior to October 1, 1982. At the option of a State, PSROs may be used for medicaid review, with 75 percent matching Federal funding.

Summary of Major Social Security Amendments in the FY 1982 Budget Reconciliation Bill

1. Repeal of the Minimum Benefit Provisions

Eliminates the minimum benefit for all present and future beneficiaries. The amount payable to individuals already receiving benefits based on the minimum primary insurance amount will be recomputed based on their actual earnings record and according to recomputation procedures to be prescribed in regulations issued by the Secretary of Health and Human Services (HHS). All benefits payable to new beneficiaries would be based on their actual earnings, with no minimum payment level, effective for benefits for months after October 1981. The minimum benefit will be eliminated for current beneficiaries beginning with the March 1981 benefit (paid in April). In addition, persons aged 60 to 64 who are entitled to a minimum benefit for February 1982 will become eligible for a special SSI benefit if they qualify under all SSI rules except that pertaining to age. The amount of the special SSI payment will be limited to the difference between the minimum benefit the individual was receiving (without regard for the earnings test) and the recalculated benefit. These SSI payments will not be adjusted for increases in the cost-of-living nor will these 60-to-64 year old persons become eligible for certain other benefits including State supplementation, food stamps, medicaid, or social services as a result of this provision.

2. Elimination of Insurance Benefits for Children Aged 18 Through 22 Who Attend Postsecondary Schools

Eliminates new benefits for child beneficiaries 18 or older in postsecondary school and 19 or older in elementary or secondary school effective August 1982. However, students 18 or older who were entitled to a child's benefit in August 1981 and who began postsecondary school before May 1982 will continue to receive benefits. The amount of their benefits, however, will not be adjusted for changes in the cost of living after August 1981. Further, beginning in August 1982, the amount of their benefits will be reduced each year by 25 percent of the August 1981 amount. Benefits will continue until the student turns 22, discontinues his education, or for some other reason ceases to qualify for benefits. In no case could benefits to postsecondary students 18 or older continue beyond July 1985. In addition, beginning in 1982, no benefits will be payable to these postsecondary students during the months of May through August.

3. Termination of Mother's and Father's Benefits When Child Attains Age 16

Ends entitlement to benefits for the mother or father caring for a child or children receiving child's insurance benefits when the youngest child reaches age 16. The provision is effective with respect to current beneficiaries beginning September 1983, but is effective for parents becoming newly entitled in or after October 1981.

4. Restrictions on the Lump Sum Death Payment

Eliminates the lump sum death payment effective for deaths occurring after August 1981 in cases where there is neither an eligible spouse nor an entitled child. Surviving spouses who were living with deceased workers or are eligible to receive monthly cash survivor benefits upon the worker's death are eligible to receive the lump sum death payment. If there is no eligible spouse, the lump sum death payment is payable to any child of the deceased worker who is eligible to receive monthly cash benefits as a surviving child. If there is no surviving spouse and no child of the worker eligible for monthly benefits, then no one is eligible to receive the lump sum death payment.

Major Reconciliation Act Changes in the Medicaid Program

Although the Administration did not secure Congressional approval of its proposal to "cap" the medicaid entitlement program, the Omnibus Budget Reconciliation Act of 1981 did make a number of major changes in the program which are likely to lead to state cutbacks. CBO estimated FY 82 Federal savings at $944 million. The major changes are:

1. Reduction in Federal Matching

States will be subject to a reduction of up to 3 percent in FY 82 in the amount of Federal matching payments they are otherwise entitled to. This reduction does not affect the States' statutory matching rate; rather, it is applied after the matching rate calculation is made. States can reduce the amount of the reduction by 1 percentage point for each of the following:

(a) operating a qualified hospital cost review program;

(b) sustaining an unemployment rate exceeding 150 percent of the national average;

(c) demonstrating recoveries from fraud and abuse activities equal to 1 percent of Federal payments.

In addition, States that keep their FY 82 medicaid outlays below 109 percent of the estimated FY 81 outlays will receive a dollar-for-dollar offset against the 3 percent reduction; for each dollar they are below the target, they lose one less dollar in reductions.

In FY 84, the percentage reduction is scheduled to increase to 4 percent; in FY 85, to 4.5 percent. Thus, losses in Federal funds to the States will increase over time.

2. Hospital Reimbursement

The previous requirement that States pay for medicaid inpatient hospital care on the same "reasonable cost" basis that medicare uses has been eliminated. Instead, States are now required to establish reimbursement levels that are "reasonable and adequate" to meet the costs that must be incurred by efficiently and economically operated facilities. In setting rates, States must take into account the situation of hospitals which serve a disproportionate number of low-income patients (e.g., public general and teaching hospitals).

3. Medically Needy

States have been given increased "flexibility" in designing their medically needy programs. They no longer need to cover all groups (e.g., aged, blind, disabled persons, and mothers and dependent chidlren); they no longer need to offer each group a minimum number of services or a comparable service package. However, if they choose

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to cover any medically needy group, they must cover children up to 18 for ambulatory services and pregnant women for prenatal and delivery.

4. Freedom of Choice Waivers

The Secretary is authorized to allow States to restrict the providers or practitioners from which a medicaid beneficiary can obtain health care. States will have to apply to the Secretary for any such plans to assure that they are consistent with statutory standards relating to access and quality. These restrictions could be imposed on a statewide, regional or local basis.

IX. Background Information on Selected Programs

BACKGROUND INFORMATION ON AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC)

Eligibility and Financing

Aid to Dependent Children (ADC) was established by the Social Security Act of 1935 as a cash grant program to enable States to aid needy children without fathers. Renamed Aid to Families with Dependent Children (AFDC), it now provides cash welfare payments for needy children (and their mothers or other caretaker relatives), who have been deprived of parental support or care because:

--their fathers are absent from home continuously (85.9 percent of the children), are incapacitated (5.3 percent), dead (2.2 percent), or unemployed (5.2 percent); or

--their mothers are incapacitated, absent or dead (1.4 percent). (Percentages are from the 1979 AFDC Study)

States define "need;" set their own benefit levels; establish (within Federal limitations) income and resource limits; and, administer the program or supervise its administration. All States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands offer AFDC to needy children without able-bodied fathers at home, and 28 jurisdictions offer Federal cash supplements also to children in two-parent families who are needy because of the unemployment of one of their parents (Aid to Families with Dependent Children of Unemployed Parents (AFDC-UP).

Eligibility for Federally aided AFDC ends on a child's 18th birthday. (Prior to the amendments contained in the 1981 Budget Reconciliation Act a State could continue benefits through age 20 for those who are students.) Federal law requires certain able-bodied recipients, including mothers whose youngest child is at least 6 years old, to register for training and employment services (which may include job search for no more than 8 weeks per year) under the Work Incentive program (WIN). The law also requires AFDC mothers to assign their child support rights to the State and to cooperate with welfare officials in establishing the paternity of a child born outside of marriage and in obtaining support payments from the father.

The Federal Government pays at least 50 percent of each State's benefit payments and more than 70 percent of benefit payments made by the four poorest States. Federal matching for AFDC varies from State to State depending, in part, on per capita income. The minimum Federal share is 50 percent. For a State with average per capita income, the Federal share is 55 percent. For States with below-average income, the Federal share ranges up to 77.36 percent in fiscal years 1982-83. The Federal government pays 50 percent of administrative costs in all States. In fiscal year 1980 AFDC benefits totaled $11.3 billion, and FY81 benefits are expected to total $12.6 billion. Of total FY80 benefits, $6.1 billion, or 54 percent, was paid by the Federal Government. At the start of FY80, 11 States required their localities to help pay for benefits.

Benefits

Maximum AFDC payments vary sharply from State to State. State payments for AFDC families of three ranged in July 1981 from $96 in Mississippi to $506 in California. All AFDC families automatically are eligible for Medicaid, and most have income within limits of the food stamp program.

States are required by Federal law to disregard certain earned income when determining the amount of benefits to which a recipient family is entitled. Prior to the Omnibus Budget Reconciliation Act of 1981, in order to provide a financial incentive for recipients to seek and maintain employment, the law required the deduction of an initial $30 in monthly earnings plus one-third of remaining earnings, plus work expenses (any expenses, including child care costs, reasonably attributable to the earning of income). When making an initial determination of eligibility, however, only work expenses are disregarded.

Amendments in the Budget Act limited the disregard for work expenses to $75 per month for full-time employment and capped the child care disregard at $160 per month per child. The $30 plus one-third disregard is allowed for only 4 consecutive months in a 12-month period. Furthermore, States are prohibited from paying AFDC to any family with a gross income at or above 150 percent of the State's standard of need. These changes drastically reduced the amount of earnings a recipient can have and still receive some amount of AFDC.

AFDC also provides cash aid for foster care of AFDC-eligible children removed from their home at judicial order and, under certain conditions, for those voluntarily placed in foster care. In August 1980, foster care payments were made on behalf of 100,146 children, 1.3 percent of all children enrolled. Their payments averaged $375 per child ($253 per child in foster care family homes, $1,103 per child in child care institutions).

Enrollment Data

The average number of AFDC recipients declined in FY 1979 for the fourth straight year, averaging 10.3 million. The rolls peaked in FY76 at a monthly average of 11.3 recipients in 3.6 million families. However, in August 1980, AFDC family enrollment climbed to a new all-time monthly high of 3.7 million, totaling 10.9 million persons. Of these families, 168,000 had unemployed parents.

As of November 1980, AFDC family enrollment was 3.8 million. This included 11 million recipients, of which 7.6 million (69 percent) were children. Of these AFDC families, 181,579 were two-parent families eligible because of an unemployed parent.

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Background on Title XX Social Services Program

Title XX of the Social Security Act authorizes funds to be provided on an entitlement basis to States for social services. Each State's share is determined on the basis of the proportion of its population to the total population of all the States. $2.4 billion is available to States under title XX in FY82 compared to approximately $3.0 billion in FY 81.

Title XX requires that each service provided under a State program be directed at achieving at least one of the following goals for the recipient:

--achieving or maintaining economic self-support or self-sufficiency;

--preventing or remedying abuse or neglect of children and adults unable to protect their own interest;

--preventing inappropriate institutional care by providing community based or home based care; or

--enabling individuals to secure appropriate institutional care when necessary.

Before expending funds under the title XX Social Services Block grant for any fiscal year, States are required to develop and make public a report on how the funds are to be used, including information about the types of activities to be funded and the characteristics of the individuals to be served.

Although title XX provides discretion to States to define services intended to accomplish the goals of the program there are certain limitations and requirements. For example, medical care may be financed with title XX funds only if it is integral to a social service; room and board may be paid for only if it is integral to a social service or is for the costs of subsistence during rehabilitation or temporary emergency shelter provided as a protective service. Services to residents of medical facilities, group homes, or halfway houses can be funded with title XX only if provided by an agency other than the facility where the individual resides and the same services are available to people who do not reside in such institutions.

Day care services for children consumed about 18 percent of all Federal funds spent for title XX in fiscal year 1980. Home based services, such as homemaker/chore services accounted for about 14 percent of all Federal funds in 1980. Protective services and other services related to child foster care accounted for another 19 percent. With few exceptions, expenditures for a particular service vary widely among the States. For example, in fiscal year 1980 Maryland planned to spend 23 percent of their title XX funds for child day care compared to 12 percent in Virginia.

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The title XX agency may provide social services directly by its own staff, or it may choose to purchase services from other public and private organizations. In fiscal year 1978, 54 percent of title XX expenditures were made under contract to other social services agencies. Of this amount 33 percent were purchased from other public agencies. The remaining 46 percent of expenditures were for services provided directly by staff of the State agencies administering title XX.

Major Budget Reconciliation Act Changes in the Title XX Social Services Program

Reduced Funding

	Previous Law	Budget Reconciliation Act
FY 81	$3.0 billion	--
FY 82	3.1 billion	$2.4 billion
FY 83	3.2 billion	2.45 billion
FY 84	3.3 billion	2.4 billion
FY 85	3.4 billion	2.6 billion

Elimination of Certain Federal Priorities

The Budget Reconciliation Act eliminated the federally mandated priority that at least 50 percent of the Federal title XX funds received by a State must be expended for services to recipients of AFDC, SSI or medicaid.

The Budget Reconciliation Act also eliminated the following provisions in the title XX program related to targeting services to low income individuals and families:

--With certain exceptions, no person with gross family income higher than 115 percent of the State's median for a family of four (adjusted for family size) could receive title XX funded services. The exceptions were protective services for abused or neglected children or adults, family planning services and information and referral services.

--States had to charge fees reasonably related to income for services to individuals or families with incomes higher than 80 percent of the State's median income or the median income of all States, whichever was lower, and, they could at their option, charge fees for services to persons below that income level.

BACKGROUND ON THE MEDICAID PROGRAM

DESCRIPTION. Medicaid is a Federal-State entitlement program that purchases health care for certain categories of poor people--the aged, blind, disabled, and mothers with dependent children. The States reimburse providers for delivering covered services to eligible persons. The Federal government matches these State outlays at a rate that ranges from 50% to 77%, depending upon a State's per capita income.

It is estimated that in FY 1982 Federal Medicaid matching payments to States will total $17 billion (after adjusting for reconciliation savings), while States (and in some cases localities) an additional $14 billion, making Medicaid by far the largest source of health care financing for the poor.

This $31 billion will purchase services for some 23 million people, roughly half of whom are children under 21. Within the general requirements of Title XIX of the Social Security Act, States have a great deal of discretion in administering their Medicaid programs. Thus, eligibility, benefits, and provider reimbursement policies vary considerably from State to State.

ELIGIBILITY. States must cover the "*categorically needy*." Basically, these are mothers and children receiving cash assistance under the Aid to Families with Dependent Children (AFDC) program, and aged, blind, or disabled persons, receiving cash assistance under the Supplemental Security Income (SSI) program. (States can elect to impose more restrictive Medicaid standards on SSI beneficiaries, but neither Arkansas, Mississippi, or Tennessee has chosen to so).

States may cover the "*medically needy*." These are persons whose incomes and resources are too high to allow them to qualify for AFDC or SSI benefits but not high enough to enable them to afford medical care. To become eligible for Medicaid under the "medically needy" program, an individual may "spend down" by incurring medical expenses so that, when these expenses are subtracted from gross income, the individual's net income falls below the medically needy eligibility level established by the State. (Arkansas and Tennessee cover the medically needy; Mississippi does not). In a state like Mississippi which does not offer coverage to the medically needy, a person who loses eligibility for AFDC or SSI loses Medicaid coverage as well. In a state like Tennessee or Arkansas, a person who loses AFDC or SSI benefits may still qualify for medically needy Medicaid coverage by "spending down." However, the income standard for the "medically needy" may be below that for the "categorically needy".

Nationally, it is estimated that of the 23 million people eligible for Medicaid in FY 82, 3.6 million will be aged, 3 million blind and disabled 11 million children under 21, and 5.4 million adults in AFDC families.

BENEFITS: States must provide the following services to the categorically needy: inpatient hospital, outpatient hospital, laboratory and x-ray, skilled nursing facility (SNF), home health care services for persons eligible for SNF services, physicians' services, family planning, rural health clinic services, certified nurse midwife services, and early and periodic screening, diagnosis, and treatment (EPSDT) for children under 21. States may provide coverage for other "optional" services, such as prescription drugs, intermediate care facility services, dental care, clinic services, and eyeglasses.

For both the "mandatory" and "optional" services, States may set limitations on the amount, duration, and scope of coverage (for example, a limitation on the number of days of hospital care or the number of physicians visits).

States may impose "nominal" copayments and deductibles on all services except the mandatory benefits provided to the categorically needy.

Benefits for the "medically needy" are generally less than benefits offerred to the "categorically needy".

Under the "freedom of choice" provisions in current law, Medicaid beneficiaries are entitled to receive services from any hospital, nursing home, physician, or other provider who agrees to participate in the program. The States are, however, authorized to "lock" beneficiaries who over utilize services into particular providers for reasonable periods of time.

Nationally, the Medicaid dollar purchase mostly hospital and nursing home care. In 1979, about three-fourths of all Medicaid dollars were spent at such institutions, leaving only about a fourth of the dollars for outpatient and preventive health services.

Much of the Medicaid institutional dollar is spent on long-term care; in 1979, 35 percent of all Medicaid outlays paid for SNF and ICF nursing home services. Another 27 percent went to general hospitals. And 11 percent paid for institutional care for the mentally ill and mentally retarded. Medicaid is the largest single purchaser of nursing home care, accounting for about half of the $10 billion in industry revenues in 1980.

The Committee visited the facilities at the John F. Kennedy Institute for Handicapped Children prior to the hearing in Baltimore. The following was received from Dr. Hugo W. Moser, Director of the Institute:

THE JOHN F. KENNEDY INSTITUTE
FOR HANDICAPPED CHILDREN

707 NORTH BROADWAY
BALTIMORE, MARYLAND 21205
TELEPHONE 955-5000

November 27, 1981

COMMITTEE ON
RECEIVED
NOV 30 1981
WAYS AND MEANS

The Honorable Daniel Rostenkowski
Chairman, House Ways and Means Committee
Longworth House Office Building
Washington, D.C.

Dear Mr. Chairman:

On behalf of those served by the Kennedy Institute and the entire staff, I would like to express our sincere and enduring thanks for your attention and concern during the recent site visit of the Ways and Means Committee. The community feedback we have received indicates that the visit focused public attention on the concern of responsible national leaders for those Americans in real need of special care and attention.

During conversations with your committee and staff, we discovered that legislators, professionals, and members of the community all share a common concern - humane and sensible care for handicapped citizens. Our experience serving the handicapped confirms your committee's findings regarding a variety of populations with potential long term care needs: proper care, delivered in a timely fashion leads to a more dignified, independent life for individuals and less need for government support.

At a time when events sometimes lead us to think that programs for the handicapped are under attack (particularly University Affiliated Programs), the concern and action by leaders like yourself offer the needed incentive for continued and expanded efforts on our part. The doors of the Kennedy Institute are always open for you and your committee and we stand ready to assist your efforts and inquiries at your request.

Sincerely,

Hugo Moser

Hugo W. Moser, M.D.
Director
The John F. Kennedy Institute

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THE JOHN F. KENNEDY INSTITUTE
FOR HANDICAPPED CHILDREN

HUGO W. MOSER, M.D.
DIRECTOR

707 NORTH BROADWAY
BALTIMORE, MARYLAND 21205
TELEPHONE 955-4001

THE MISSION OF THE JOHN F. KENNEDY INSTITUTE IS:

- To provide outstanding service for developmentally disabled children and their families. For children with complex problems, that cannot be managed as effectively elsewhere, this service (tertiary care) will be provided at the Institute. For others, both in our own community and elsewhere, the Institute will cooperate with and offer support to other service providers.

- To provide intensive professional training, which meets the highest standards and involves the coordinated effort of all pertinent professions, to a significant number of people who will work with the mentally retarded or developmentally disabled, or who will train others to do so.

- To develop, validate, and disseminate widely, new methods for the treatment, prevention, diagnosis, or understanding of the many disorders and environmental circumstances that may cause mental retardation or developmental disabilities.

CHILDREN SERVED BY KENNEDY INSTITUTE IN 1981

MENTAL RETARDATION	1,300
LEARNING DISABILITIES	1,100
BEHAVIORAL DISORDERS	1,100
COMMUNICATION DISORDERS	450
CEREBRAL PALSY	350
EPILEPSY	250
LEAD POISONING	100
OTHERS	350
TOTAL	5,000

KENNEDY INSTITUTE

PROFESSIONAL TRAINING
1980-81

Trainees

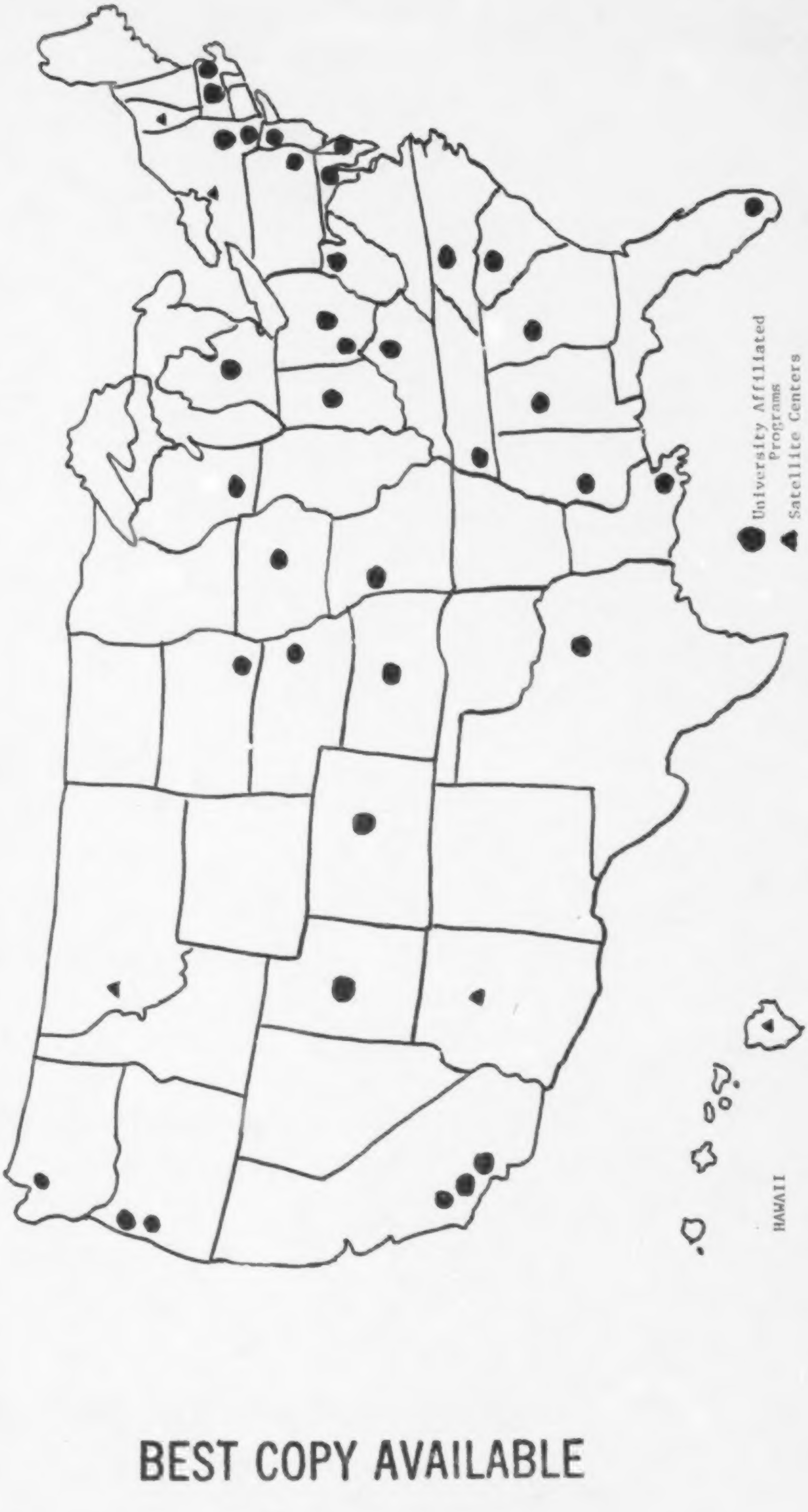
Long Term:	3-12 months	104
Intermediate:	1-2 months	78
Short Term:	< 1 month	1,128
	Total:	1,310

Representing

73	Colleges/Universities
16	States

5 Year Followup	Long Term Trainees
Service Setting	55%
Training Setting	43%
Unrelated Field	2%

NATIONAL NETWORK OF UNIVERSITY AFFILIATED PROGRAMS FOR THE MENTALLY RETARDED
(SUPPORTED FROM MATERNAL AND CHILD HEALTH DISCRETIONARY FUNDS)


● University Affiliated Programs
▲ Satellite Centers
HAWAII

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MATERNAL AND CHILD HEALTH FUNDING (millions)

	FY 81	Tentative FY 82		% Reduction
TOTAL BUDGET	457.4	351	(Senate)	24
		321	(House)	30
* Research/Training, Hemophilia, Genetics, Special Projects	93.2	56.0		40
* R/T (Univ. Affiliated Program for the Mentally Retarded)	30	?		

John F. Kennedy Institute Budget

Source	Fiscal Year (in thousands) FY 1982 (Budget)		FY 1983 (Projected)	% Reduction (Increase)
Service and Service Training				
Patient Revenue		4,884		
Crippled Children Services	369		?	
Medicaid	2,393		?	
Other	1,949		2,144	
Maternal and Child Health (Discretionary Funds, HHS)		2,490	1,192	-50%
Administration for Developmental Disabilities		296	222	-25%
Other		830	664(?)	-20%
Total Service and Training		8,500	?	
Research		2,059	(?)	
Other(including private sources)		1,058	1,270	+20
Total		11,617	?	

Chairman ROSTENKOWSKI. The hearing will come to order.

We have come to Baltimore to test the early impact of the President's budget cuts. A year ago, the Nation voted its demand for cuts in Federal spending. We are here to find out whether the President is satisfying that demand. We are here to find out whether his cuts in health care, education, and family assistance are what the country asked for last November.

We have come to ask whether private industry and charities will fill the gap left by reductions in social benefits, as the President seems to think. We have come to Baltimore because it is a city with many social and economic levels. It is a working city, an industrial city. It has a history of civic pride and social consciousness.

Baltimore is a big eastern city suffering the onset of the recession and of all the accompanying demands on Government resources.

I want to thank the Maryland congressional delegation, Governor Hughes, Mayor Schaefer, and other panelists for appearing today. Your testimony on the effect of the Federal cutbacks is the first of five investigations which we will make as the Ways and Means Committee travels around the country. Together they will form the basis for a thorough review of the President's budget program and budget legislation for the coming year.

I want to announce at this point that the record of this hearing will be open and kept open for a period of 30 days for any additional public testimony.

Also at this point I would like very much to express the committee's gratitude and welcome as participants two of our outstanding colleagues in the Congress of the United States, a former member of the House of Representatives and presently a Member of the U.S. Senate, Paul Sarbanes, and one of the most active Members of the House of Representatives, our colleague, Barbara Mikulski.

I'd also like to point out that Parren Mitchell, because of the legislative program on the floor of the House of Representatives, is unable to be with us. He is chairing a panel which has scheduled hearings and is going to have floor debate on the Suspension Calendar this afternoon.

With that, Senator, we'd like very much for you, if you could, after your testimony or after your brief remarks, to join us, if you would. And Barbara, we would express the same solicitation to you.

Senator Sarbanes?

STATEMENT OF HON. PAUL SARBANES, A U.S. SENATOR FROM THE STATE OF MARYLAND

Senator SARBANES. Thank you very much, Mr. Chairman, and members of the committee. I am honored to join with my close friend and my very able colleague, Barbara Mikulski, in welcoming the committee here. We're very pleased to have you in Baltimore. We think that there is a lot that has been done here that is very important and very relevant to the inquiry which you have underway.

I know the pressure on your time. I served with many of you for 6 years in the House, so I got trained on the 5-minute rule and I'm going to do even better than that this morning and I will, in fact, be very brief. There are a couple of comments I want to make.

I think we saw in the tour of the Kennedy Institute the enormously fine work that's being done at that health facility. In commenting carlier on the administration's budget people and their proposals, I said that they knew the cost of everything and the value of nothing. I think that there is a great deal of truth to that and that this morning's experience underscores the fact that they may not even know the cost of everything. The one thing that was very clear this morning at the Kennedy Institute is that those are very cost-effective programs that are being cut back and the consequence of that is simply going to be to add to the burden, not to diminish it.

Many of these programs represent wise and prudent investments in the future and in building the future strength of our country. If we do not carry them forward, we are, in fact, sowing the wind and not too far in the distant future, we will reap the whirlwind.

The other point I want to make about this city and State is that we have been working very hard to make effective use of the range of Federal programs that are available and have managed to put together in almost a unique way a partnership among the private sector, local government, State government, and the Federal Government. Those programs have paid off. The evidence is all around you and you will see a good deal of it today and hear even more about it. It is why we particularly resent the sort of comment that was made yesterday that appears in this morning's paper, which says "Baltimore Grantsmanship Cited as the Kind Reagan Wants Ended."

I want to say to the members of the committee that there has not been grantsmanship. What there has been is a hard, determined, continued, persistent effort to address our problems and to utilize the full range of the resources offered by the Federal Government, by the State government, at the local level, and by the private sector. We have done an enormously effective job of interrelating all of those sources of help and assistance, of investment and commitment, in order to create the renaissance which has taken place in this city and which Mayor Schaefer has so ably led.

I simply want to say to the members of the committee that many of the programs that we have used effectively are programs which this committee has authorized over the years over which this committee has had oversight. We think that we have been able to make good use of those programs. We think that they are effective. We think that they have worked for the betterment of our society. We hope that you will agree with us as you see them today and hear about them today.

I cannot believe that in the end, the American people will turn away from building a more decent and just society, and a society in which we are strengthening ourselves for the future. Many of these programs, as I said, are a wise and prudent investment in the future strength of America.

Mr. Chairman, we are honored to have this very distinguished committee in our city today. We thank you for coming.

Chairman ROSTENKOWSKI. Congresswoman Mikulski?

STATEMENT OF HON. BARBARA A. MIKULSKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Ms. **Mikulski**. Thank you very much, Mr. Chairman, and members of this committee. Welcome to Baltimore. And may I offer at the outset my personal thanks for coming here.

I've seen this city from a number of different viewpoints and I love it dearly. I've seen it from the streets and neighborhoods as a social worker. I've seen it from its legislative heart, as a member of the city council right here in this chamber. And I've seen it within the context of all cities and communities as a member of Congress.

During all those years I've watched my town change from a place that was on its back right after the Baltimore riots in 1968 to a sparkling showplace that is now featured in Time magazine and even international journals. And I know what it took to make Baltimore a showplace. We had to make some tough decisions in this town to begin what we now call the renaissance in Baltimore. We had to do it under a city charter that said we had to have a balanced budget. Long before it was a national fact or an economic policy, the city government of Baltimore had to balance its budget in order to meet the needs of its people and we did it. We did it by allocating our financial resources and our human resources properly.

And what I've watched and seen from what's happened to Baltimore, is that we're also a town that believes in self-help. But I can tell you from the years of personal observation, the lesson that we learned here in Baltimore, given the current Reagan budget, could not be repeated any place else in America because the tools that helped bring Baltimore back will not be in place in Washington to help us do it.

When one takes a look at Baltimore, the first observation we make is that the Federal Government broke its social contract with the people. We lost our funding for the handicapped kids you saw today and for CETA jobs. You're going to hear about our economic development that enabled us to help ourselves, and we even lost our reading program for the blind.

Now it's been my experience that problems don't disappear just because the funding does. Somehow, we'll have to cope. And you know, we here in Baltimore will do that. We can see from looking around this town that we've never looked for a handout from anybody. But we have looked for a helping hand so that we could help ourselves. And now that's gone.

We're a town of working people. We're a town of strong volunteer programs, where people live in neighborhoods and come forth willingly to help their neighbor or help their community. We take care of our own. But good volunteer programs are still not an adequate substitute for Federal funds.

The President has asked the private citizens to do more and we're asking that this administration support that request by giving us what we need. Baltimore will always be ready to do more. There is nothing magic about what happened here—the rebirth, the Inner Harbor. It was a combination of practicality, hard work, and people coming together.

Baltimore is the best example of what can happen when there's a partnership between the Federal Government and the cities and the private sector. Baltimore did not happen because of pixie dust. Baltimore happened because of EDA money, UDAG money, other kinds of self-help, and the programs that helped us in CETA to put our people to work doing real things for this community.

And I hope that you take a good, hard look at us and learn from our experience so that we could help our country be all that it can be.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF HON. BARBARA A. MIKULSKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Welcome to Baltimore, and may I offer at the outset my personal thanks for what you have done in coming here, and for what I hope you are about to do in allocating resources for all the cities and people of this country.

I have seen this city from a number of different viewpoints, and I love it dearly. I have seen it from the streets as a social worker, I have seen it from its legislative heart as a city council member, and I have seen it in the context of all cities as a Member of Congress.

During all those years I have watched it change, watched it become a sparkling showplace featured in Time magazine. And I know what it took to make Baltimore a showplace.

We had to make some hard decisions to begin the renaissance of Baltimore. We had to ask for balance and cooperation among all the sectors of the city—corporate, neighborhoods, and governmental. And we had to come forward each year with a balanced budget to offer to the citizens of Baltimore. Yes, the city council here was balancing the budget long before it became the latest Washington fad.

What I have learned from watching Baltimore be reborn is that the most important task we accomplished was putting our resources in the right places, both our financial resources and our human resources.

And I can tell you from years of personal observation, the lesson we learned here in Baltimore is not being repeated nationwide. Where the Reagan administration is putting its resources will not help balance the budget, and will not give the American people a better lifestyle.

The Reagan budget has hit our city hard, and has hit our people hard, especially in terms of the social contract they believed they had with the Federal Government. We have lost funding for services for handicapped children, CETA jobs, legal assistance, economic development grants, and even our reading program for the blind.

It has been my experience that the problems do not disappear just because the funding does. Somehow we will have to cope.

And you know, and you can see from looking around you that the people of Baltimore have never looked for a handout from anyone. We are a town of working people. We are a town with strong volunteer programs, where people still live in neighborhoods and come forth willingly with a helping hand in bad time and in good.

We take care of our own. But good volunteer programs are still not a substitute for adequate levels of Federal funds. The President has asked the private citizen to do more, and we are asking that his administration support that request by giving us the financial base we need.

Baltimore will always be ready to do more. There was nothing magic about what happened here, the rebirth, the Inner Harbor. It was a simple combination of practicality, hard work, and people coming together because they loved their city.

Baltimore is the very best example of what can happen when the Federal Government, the local government, neighborhoods, and community groups join together for a cause larger than themselves.

There was no pixie dust. There seems to be less and less of most things. And that means that there must be more careful planning, better allocation of the resources we do have, and an undying commitment among all the people in this city to help one another.

Chairman **ROSTENKOWSKI**. Thank you very much. Are there any questions?

[No response.]

Chairman ROSTENKOWSKI. Thank you very much, Senator, Barbara.

It's my pleasure at this time to ask His Excellency, Governor Hughes, to take the witness stand.

Governor, thank you very much on behalf of the committee for participating in this panel discussion. We're looking forward to your testimony. If you will proceed as you see fit.

STATEMENT OF HON. HARRY HUGHES, GOVERNOR, STATE OF MARYLAND

Governor HUGHES. Thank you, Mr. Chairman. I join with my colleagues to welcome you to Baltimore and to Maryland. This is an historic occasion. As I understand it, this is the first time that the full committee has met outside of the city of Washington. Am I correct on that?

Chairman ROSTENKOWSKI. Yes, you are.

Governor HUGHES. Well, you picked the right place to have a first. It happens to come on the day that we are holding an exercise to prepare ourselves for handling an emergency, should one happen to occur at our nuclear power plant. I will have to be leaving here very shortly in order to continue my activity in that emergency, which does involve the Federal Government, the State government, and volunteers throughout the State, a very important exercise.

We're also here discussing an emergency. One of the more tragic aspects of this emergency is that it flows from a noble purpose. That purpose, of course, is to apply the brakes to the runaway inflation which threatens the future economic well-being of our Nation and all its citizens. Many of us agree with that purpose and even agree with the direction of the corrective steps being taken to achieve our goal of a stable economy.

But those of us who see the day-to-day effects of this effort must seriously question the breathtaking, breakneck speed with which those steps are being taken.

It is one thing to apply the brakes to inflation and bring it to an orderly halt in preparation for a reversal of gears. It is quite another thing to apply those brakes so suddenly that we are violently hurled against the dashboard and suffer injury far greater than that which might be inflicted on us by inflation itself.

We are concerned, therefore, not about the application of the brakes, but about the suddenness of that application.

Our attempts to adjust to this questionably sudden application of the brakes on inflation began last winter. That was when word began trickling down from Pennsylvania Avenue and Capitol Hill about the potentially horrendous effects of the new Federal budget on the services which we must provide to the people of Maryland.

First came the terrifying generalities: Welfare recipients will be chopped off the roles; the elderly and the handicapped would have to shift for themselves; youngsters relying on Federal aid for the continuance of their education would have to learn not just about algebra, geometry, and physics, but would have to learn something about doing without and shaping up or shipping out.

After these terrifying generalities came the qualifying generalities: The truly needy, whatever that means, would be still taken care of. A safety net, whatever that means, would be provided for them. And next came the guessing game. How much in real dollars would all this mean to those of us trying to convert these generalities into the harsh reality of budget-making, of tailoring this new, skippy piece of Washington cloth to fit the growing body of necessary State services?

Early reports indicated that our State might receive from $200 to $215 million less in Federal funds during fiscal 1982 than could have been expected under previous funding formulas and was already included in our current State budget which started July 1.

Months later, however, we were able to discern that this amount would be closer to $50 million, but—and the "but" is that this loss was only part of the ever-changing story, a story which, it might be ironically noted, is still changing on the basis of whether the new "supply-side economics" is really just the old "trickle-down" economics.

The rest of the story is still incomplete because of doubts about whether the promise of authorization will be translated into the reality of appropriation. But we do know that besides the $50 million in funds channeled directly to the State, Maryland will lose up to another $150 million or so in direct Federal aid to the counties and local governments in the city.

In addition, there are other programs which have been threatened, such as Federal funding for sewage treatment plants, the Appalachia Regional Commission, and others. All this loss would come after the $45 million annual and continuing loss to the State of revenue-sharing money.

All told at this reading, we in Maryland have been warned to look for a loss of more than the quarter-billion dollars in Federal funds in 1 year. In a total State budget of $5.6 billion or so, that is a potentially catastrophic loss.

Nonetheless, we were determined to make the best of a very bad situation. We immediately proceeded to revise and adjust our spending programs in a manner to design to protect the truly needy, by our definition, from the cruelist Federal budget reductions.

In this light, we decided to transfer Federal funds or to use our own resources to compensate for Federal cutbacks in certain critical programs, like those involved in the treatment of crippled children, alcoholics, and drug addicts.

In this connection, we decided to begin administering under the options afforded us by the Federal outline five of the nine Federal block grants embracing previously designated categorical grants. In this group of five are grants for social services, energy assistance, mental hygiene and addictions, materal and child care, and preventive health services.

In addition, we decided to forgo, at least for the time being, administration of the grant for community services because of the myriad administrative problems involved.

Under the options afforded us, we had no choice but to withhold a decision at this time on the grant for primary health care.

Some of the problems involved in the determinations of which grants we will administer and in the juggling of resources within these blocks of grants will be detailed for you by my cabinet members later in this hearing. But just one example of the human considerations involved, of the heartbreak involved, and of the penny-wise, pound-foolish aspects of our problem has come to my attention in the form of a letter from one of our citizens. Her name is Jeannette and she resides in the Baltimore metropolitan area.

She writes that she is a single mother of two children. The first of these was born to her when she was 19. In an attempt to avoid a protracted stay on the welfare rolls, she applied for and received Federal grants to further her schooling, and as she put it, "To try and lift myself out of this mess." Under the CETA program, she attended and completed a training course as a dental assistant, graduating with an A average. Two weeks later, she had lined up a job.

Her letter of October 20 records that she grosses $140 a week on her job as a dental assistant. After deductions, she nets $121.48 a week. Of this, $40 goes to a babysitter, $25 for the purchase of fuel for her automobile. For the rest—less than $57—she must buy the white hosiery required for her job, pay her rent, clothe her children, pay her telephone bill, buy food and medical and dental care for her children and herself. I now quote from this woman's letter:

> When I first started my job, Social Services told me I would get $188 in a check, $90 in food stamps and I could keep my medical [assistances] cards. I was paying only $55 a month for rent through the section 8 [subsidized housing] program. I thought they would raise my rent when my lease was up since I was working and receiving AFDC assistance. Again, I thought this would be fair and understandable. I figured even if it was raised to $100 a month I could make it.
>
> What I wasn't expecting was that in 1 month I would be told that I make $6 a month less than a family of five is expected to live on and everything would be taken away. Immediately. I would like to know how, since I actually clear only $57 a week, I am supposed to pay my rent and expenses and raise my children.
>
> Could you do it? According to Mr. Reagan's budget cuts, I am not supposed to gross more than $405 a month with two children.

Jeannette writes that if she quit her job, she would pay $55 monthly for rent, receive $270 in the form of a welfare check, $97 a month in food stamps and medical assistance benefits.

She asks a simple question:

> Which sounds better to you—leaving your children and working all week to go completely broke, or sitting home with your kids watching Sesame Street and never leaving the house?

Jeannette then adds this:

> I really don't want to do the latter, but if I can't hold my head above water this next month, I really see no alternative. My goal is to work full-time and continue my education at night so as to eventually become completely independent, but unfortunately, this seems impossible now.

Jeannette closes with this statement: "I hope and pray there is an answer in the near future for myself and people like me."

Mr. Chairman and members of the committee, I too hope and pray that there is an answer in the near future for Jeannette and people like her. For the excessive Reagan budget cuts, which obviously do not protect the "truly needy," do more than merely play hob with the efforts of budget makers in Government. They play havoc with the lives of the people we serve, people like Jeannette and the millions of citizens like her throughout the country.

We in Maryland will continue to do the best we can under the circumstances dictated by those insisting that we curb inflation at any price and at any pace. We will carry on. We will trim where we can. We will save where we can. We will scrimp and scrounge where we can. But there is a limit to how much we can do.

The Jeannettes of America cry out to us. The afflicted, the handicapped, the elderly cry out to us. America cries out to us and we cannot, we must not, turn a deaf ear to those cries.

Thank you, Mr. Chairman, for permitting me to testify. I apologize for reading portions of the letter, but I think it says it better than anything I could say. I do have the letter here, which I would be glad to let you have, Mr. Chairman, if you care to have it for your files.

I'd be perfectly willing to try and answer any questions, should there be any.

[The prepared statement and letter follow:]

Statement of Hon. Harry Hughes, Governor of the State of Maryland

Mr. Chairman, Members of the Committee, Ladies and Gentlemen, I am deeply grateful for this opportunity to appear before your committee on a matter of grave concern to the four-million citizens of Maryland, and, I am sure, to our fellow Americans throughout this great land. That concern, briefly stated, is how the new policy of the national administration and the implementation of that policy will affect our lives today and tomorrow and the lives of our children thereafter. Your demonstration of penetrating interest in this matter is one of the few early rays of hope shining through the dark cloud which has hung over us for so much of this year.

I believe it is especially appropriate that we assemble here for this historic gathering, which I am told, is the first meeting of your Committee outside the nation's capital since the birth of our country. It is appropriate in place and in time.

The propriety of place stems from the fact that the land on which our nation's capital rests was carved from the heart of Maryland at the inception of this nation. It is especially appropriate in time, particularly on this day, because our State is at this moment engaged in an exericse to deal with an emergency of disaster proportions. This emergency exercise involves the capacity of our State to cope with a possible malfunction at our nuclear-power generating complex at Calvert Cliffs on the Calvert County western shore of the Chesapeake Bay.

My participation in this emergency exercise involved my inspection within the last hour of our emergency management headquarters at Pikesville, on the northeast outskirts of this great port city of Baltimore. Upon the conclusion of my appearance before your Committee I shall depart from this City Hall for the Calvert Cliffs scene of the theoretical incident which has led to this exercise.

This exercise involves the possibility of a sudden emergency which could threaten the safety of all our people. Such an emergency, we are convinced, is improbable. But we must nevertheless be prepared for such a possibility in the interest of the safety and welfare of all our citizens.

By contrast, the potential emergency with which your Committee and your colleagues and, indeed, all of us in public life must cope is perhaps less sudden but nonetheless insidious and, in its ultimate aspects, as horrifying and demanding of our immediate attention.

It is an emergency which threatens not necessarily the life of any citizen, but the quality of life of all citizens.

Beyond that, it holds such a devastating potential to demean our society and to diminish our hopes for a brighter tomorrow.

One of the more tragic aspects of this insidious emergency is that it flows from noble purpose. That purpose, of course, is to apply the brakes to a runaway inflation which threatens the future economic well-being of our nation and all its citizens. Many of us agree with that purpose and even agree with the direction of the corrective steps being taken to achieve our goal of a stable economy.

But those of us who see the day-to-day effects of this effort must seriously question the breath-taking, break-neck speed with which those steps are being taken.

It is one thing to apply the brakes to inflation and bring it to an orderly halt in preparation for a reversal of gears. It is quite another thing to apply those brakes so suddenly that we are violently hurled against the dashboard and suffer injury far greater than that which might be inflicted upon us than by inflation itself.

We are concerned, therefore, not about the application of the brakes but about the suddenness of that application.

Our attempts to adjust to this questionably sudden application of the brakes on inflation began last winter. That was when word began trickling down from Pennsylvania Avenue and Capitol Hill about the potentially horrendous effects of the new federal budget on the services which we must provide to the people of Maryland.

First came the terrifying generalities: welfare recipients will be chopped off the roles; the elderly and the handicapped would have to shift for themselves; youngsters relying on federal aid for the continuance of their education would have to learn not just about algebra and geometry and physics, but would have to learn something about doing without and shaping up or shipping out.

After these terrifying generalities came the qualifying generalities: the "truly needy"—whatever that means—would still be taken care of; a "safety net"—whatever that means—would be provided for them. Next came the guessing game: How much in real dollars would all this mean to those of us trying to convert these generalities into the harsh reality of budget-making, of tailoring this new, skimpy piece of Washington cloth to fit the growing body of necessary State services?

Early reports indicated that our State might receive from $200 million to $215 million less in federal funds during fiscal 1982 than could have been expected under previous formulas and was already included in our current state budget. Months later, however, we were able to discern that this amount would be closer to $50 million, but . . . The "but" is that this loss was only part of the ever-changing story, a story which, it might be ironically noted, is still changing on the basis of whether the new "supply-side economics" is really just the old "trickle-down" economics. The rest of the story is still incomplete because of doubts about whether the promise of authorization will be translated into reality of appropriation. But we do know that, besides the $50 million in funds channeled directly to the State, Maryland will lose up to another $150 million or so in direct federal aid to county and local governments. In addition, there are other programs which have been threatened, such as federal funding for sewage treatment plants, the Appalachia Regional Commission, and others. All this loss would come after the $45 million annual and continuing loss of revenue-sharing money which would no longer be shared because of the new so-called federalism doctrine of "what's yours is ours and what's mine is mine." All told, at this reading we in Maryland have been warned to look for a loss of more than a quarter-million dollars in federal funds in one year. In a total state budget of $5.6 to $6 billion, that is a potentially catastrophic loss.

Nonetheless, we were determined to make the best of a very bad situation. We immediately proceeded to revise and adjust our spending programs in a manner designed to protect the "truly needy"—by our definition—from the cruelest federal budget reductions.

In this light we decided to transfer federal funds or to use or own resources to compensate for federal cutbacks in certain critical programs like those involving the treatment of crippled children, alcoholics and drug addicts. In this connection, we decided to begin administering, under the options afforded us by the federal outline, five of the nine federal block grants embracing previously designated categorical grants. In this group of five are grants for social services, energy assistance, mental hygiene and addictions, maternal and child care, and preventive health services.

In addition, we decided to forego, at least for the time being, administration of the grant for community services because of the myriad administrative problems involved.

Under the options afforded us, we decided to withhold a decision at this time on the grant for primary health care.

Some of the problems involved in the determinations of which grants we will administer and in the juggling of resources within those blocks of grants will be detailed for your committee by my Cabinet members later in this hearing. But just one example of the human considerations involved, of the heartbreak involved, and of the penny-wise, pound-foolish aspects of our problem has come to my attention in the form of a letter from one of our citizens. Her name is Jeannette and she resides in the Baltimore Metropolitan area.

She writes that she is a single mother of two children. The first of these was born to her when she was 19. In an attempt to avoid a protracted stay on the welfare rolls, she applied for and received federal grants to further her schooling and, as she put it, "to try and lift myself out of this mess." Under the CETA program she attended and completed a training course as a dental assistant, graduating with an "A" average. Two weeks later she had lined up a job.

Her letter of October 20 records that she grosses $140 a week on her job as a dental assistant. After deductions she nets $121.48 a week. Of this $40, goes to a babysitter, $25 for the purchase of fuel for her automobile. From the rest—less than $57—she must buy the white hosiery required for her job, pay her rent, clothe her children, pay her telephone bill, buy food and medical and dental care for ther children and herself. I now quote from this woman's letter:

"When I first started my job, Social Services told me I would get $183 in a check, $90 in food stamps and I could keep my medical (assistance) cards. I was paying only $55 a month for rent through the Section 8 (subsidized housing) program. I thought they would raise my rent when my lease was up since I was working and receiving AFDC assistance. Again, I thought this would be fair and understandable. I figured even if it was raised to $100 a month I could make it.

"What I wasn't expecting was that in one month I would be told that I make $6 a month less than a family of five is expected to live on and everything would be taken away. Immediately. I would like to know how, since I actually clear only $57 a week, I am supposed to pay my rent and expenses and raise my children.

"Could you do it? According to Mr. Reagan's budget cuts I am not supposed to gross more than $405 a month with two children."

Jeannette writes that if she quit her job she would pay $55 montly for rent, receive $270 in the form of a welfare check, $97 a month in food stamps and medical assistance benefits.

She asks a simple question: "Which sounds better to you—leaving your children and working all week to go completely broke, or sitting home with your kids watching 'Sesame Street" and never leaving the house?"

Jeannette then adds this: "I really don't want to do the latter, but if I can't hold my head above water this next month, I really see no alternative. My goal is to work fulltime and continue my education at night so as to eventually become completely independent, but unfortunately this seems impossible now."

Jeannette closes with this statement:

"I hope and pray there is an answer in the near future for myself and people like me . . ."

Mr. Chairman and members of the Committee, I, too, hope and pray that there is an answer in the near future for Jeannette and people like her. For the excessive Reagan budget cuts, which obviously do not protect the "truly needy" do more than merely play hob with the efforts of budget makers in government. They play havoc with the lives of the people we serve, people like Jeannette and the millions of citizens like her throughout the country.

We in Maryland will continue to do the best we can under the circumstances dictated by those insisting that we curb inflation at any pace and at any price. We will carry on. We will trim where we can. We will save where can. We scrimp and scrounge where we can. But there is a limit to how much we can do. The Jeannettes of America cry out to us. The afflicted, the handicapped, the elderly cry out to us. America cries out to us and we cannot—we must not—turn a deaf ear to those cries.

OWINGS MILLS, MD., *October 20, 1981.*

JOHNNY JOHNSON,
State House,
Annapolis, Md.

DEAR MR. JOHNSON: Last week, in desperation, I called your office hoping to find some answer to my practically hopeless situation brought about by the recent budget cuts. Much to my surprise, your office seemed to be the first of many which I called that took an interest.

I am a single mother of two children. My first child was born to me when I was nineteen years old. Admittedly, this was an idealistic error on my part, but we all try to learn from our mistakes. I found myself on welfare and rapidly came to realize this was not right for my child or myself. I applied for and received federal grants for schooling to try and lift myself out of this mess, but every time I told my caseworker, she told me my grant would be considered as income and my already meager allowance would be cut even smaller. Considering going to school would cost me more for babysitters and transportation, I saw no way to be able to pursue the schooling on less money. So ended that dream. I started working part time in a department store and took another cut in my check, which I found completely understandable.

Time passed and I found myself engaged to a man whom I had been seeing for three years. Even though I was practicing birth control, I became pregnant again. At the time this didn't seem to be a problem since our wedding date was only a few months away. The problem came when my fiance decided he did not want a child or me for that matter. Trying not to make the same mistake twice, I sought to abort the child. Unfortunately, I was sixteen weeks pregnant and the hospital advised against it. In an attempt to deal realistically with my situation, I continued to work through Kelly Temporary Services until my ninth month, and had one more child. I am telling you this so you will understand that I was not trying to just have children so the government could support me.

Anyway, the baby was eleven months old and once again I decided to try to straighten out my life. This time someone really wonderful helped me. A CETA worker named Carolyn Savage told me I could go to school and they would pay me thirty dollars a week for expenses. Of course, that amount went to a sitter and my welfare grant was reduced, but I felt good and, for the first time, hopeful. I completed the Dental Assisting course at the Medic School with an A average. Two weeks after completing the course, I had a job lined up, thus proof that the CETA program does work. The two other girls in my class on CETA both completed the course and are now working.

On my new job I gross $140.00 a week. I clear $121.28. Forty dollars a week goes to the sitter, twenty-five dollars goes to gas money. That brings it down to fifty-five dollars to buy the white hosiery required by my job, pay my rent, clothe my children, pay my phone bill, buy food and pay my medical and dental expenses for my children and myself. I don't have to tell you that this is impossible; I'm sure you already realize this.

When I first started my job, Social Services told me I would get $183.00 in a check, $90.00 in food stamps and I could keep my medical cards. I was only paying $55.00 a month for rent through the Section Eight Program. I thought they would raise my rent when my lease was up since I was working and receiving AFDC assistance. Again, I thought this would be fair and understandable. I figured even if it was raised to $100.00 a month I could make it. What I wasn't expecting was that in one month, I would be told that I make $6.00 a month less than a family of five is expected to live on and everything would be taken away. Immediately. I would like to know how, since I actually only clear $55.00 a week, I am supposed to pay my rent and expenses and raise my children. Could you do it? According to Mr. Reagan's budget cuts I am not supposed to gross more than $405.00 a month with two children.

If I quit my job (which I was told to do by Congressman Long's office, because I wasn't expected to work with two small children!) I would pay $55.00 a month rent, get $270.00 a month in a check, $97.00 a month in food stamps and have medical cards. Which sounds better to you: leaving your children and working all week to go completely broke, or sitting home with your kids watching Sesame Street and never leaving the house? I really don't want to do the latter, but if I can't hold my head above water this next month, I really see no alternative. My goal is to work full time and continue my education at night so as to eventually become completely independent, but unfortunately this seems impossible now.

Thank you for your time and I hope and pray there is an answer in the near future for myself and people like me trying to right the wrongs they've done.

Sincerely,

JEANNETTE ———.

Chairman ROSTENKOWSKI. Thank you, Governor. Governor, you've indicated in your testimony that the State has decided to administer only five of nine block grants. These programs have experienced reductions in funding of about one-quarter to one-third. In your opinion, will the State be able to make up the full amount of these reductions?

Governor HUGHES. No; we will not. I formed a task force very early, back in May or June, to try to address the block-grant situation, not knowing exactly what it was going to be, but trying to anticipate it. Through the course of our deliberations, we did involve local government, municipal government in the working of the task force. The result was the consensus is to the five block grants that the State should administer. We're continuing to look at the remainder, such as the smaller cities urban block grants. But there is no way that the State can make up the full loss of the Federal funds.

As I indicated in my testimony, we're trying to shift things and we're trying to take some State money to protect those people that need the protection the most from some of these cuts. But there's no way that we can make up all of it.

Chairman ROSTENKOWSKI. Well, you know, I'm sure better than anyone else, that Congress has recently enacted a host of major changes in hundreds of Federal programs and cut Federal expenditures by some $31 million, beyond the details of any programs or changes in the budget cuts. The President has suggested that his budget and economic program has begun to refocus the relationship between Federal, State, and local governments to better realine the administration of financial responsibilities, in his judgment.

Would you comment on what is known as the Reagan administration's emerging "New Federalism?"

Governor HUGHES. Well, Mr. Chairman——

[Buzzer sounds.]

Ms. MIKULSKI. That's a comment? [Laughter.]

Governor HUGHES. I don't know why that happened when I looked at you, Barbara, but it did. [Laughter.]

Back many months ago, the National Governors' Association indicated to the President our agreement with the effort that he was making, realizing that there would have to be some reductions in some of the Federal programs. But we insisted or asked for a couple of things in doing this. Now we weren't thinking of 30-percent, 20-percent cuts obviously at that time. But a couple of things we were asking for which we felt terribly important was more flexibility at the State and local level, less constraints, less restrictions, that we felt that if we were going to have a reduction in Federal funds, we could make the buck go further if we didn't have so many restrictions and constraints and had a greater degree of flexibility. We haven't seen all of that occur.

Second, we asked for leadtime. Our budget, as I've indicated, started July 1, so we're well into that year. Depending upon what actions occur at the Federal level, we might have to change our rules and regulations at the State level. You don't do that overnight; it takes months to do that. We might have to change State laws that have been enacted to conform with Federal laws.

So we asked for leadtime. We haven't seen a whole lot of that.

We were willing to, as I say, take some reduction and we also suggested that there were areas where the State and local governments could maybe take the major role in areas where Federal Government should take the major role, such as in medical assistance and medicaid, and States and locals could take a larger role maybe in transportation and education, a shifting of responsibilities.

That isn't occurring, either, apparently.

We have no problem with assuming more responsibility. We're trying to address it at the National Governors Association this last time. We established a standing committee for the first time on State-local relationships, realizing that with this new effort that is moving along, it's terribly important, much more important than it's ever been, for State and local government to recognize each other's problems to work together.

So I think we're doing whatever we can to cope with this, but the "New Federalism," as I originally understood it, doesn't seem to be occurring in the way that we had thought it was going to occur.

Mr. PICKLE. Governor, I would just observe something that I have experienced around the Capital. The Federal Government has serious budget problems. It's been trying to correct the budget as best it can. If we didn't have any problem, we wouldn't be holding this meeting here today. Now the State of Maryland is going to lose some $250 million. That's a lot of money.

Now I notice in your testimony you said that you don't object to taking corrective action. We all need to tighten up and have more restraint.

I judge that what you're saying is you need more time, that it's too drastic, too quick. Is that the essence of what you're saying or are you saying that we ought to continue all of these Federal programs?

Governor HUGHES. No; I'm not saying that everything should continue along the way it was going. But you're correct, I am saying that if these adjustments are going to be made, if the reductions are going to be made, that they can't happen this suddenly. We can't cope with them that suddenly.

I'm not so sure that I would agree with all of the areas where maybe reductions are being made, but the suddenness of them is what we're struggling with right now, and the uncertainties right now. We worked very hard to handle the first go-round just about the time I was to send Secretary Schweiker a letter saying here's what we're going to do: We're going to administer five of these nine block grants and had gotten a consensus on that—it was almost the same day, maybe not quite the same day—it was announced that there was going to be another 12-percent across-the-board cut.

That kind of thing is creating a very anxious community, that they don't know what's coming, how fast it's coming, where it's going to come. This is very difficult to cope with.

Realizing that we have a national problem of the high interest rates, a terrible problem, inflation, terrible problem, but you simply can't turn off the spigot overnight.

Chairman ROSTENKOWSKI. Mr. Rangel?

Mr. RANGEL. Thank you for being here, Governor. Several months ago, Mr. Stockman, the Director of OMB, testified in front of this committee. When an inquiry was made as to what happens to all of these crippled, and retarded, and disadvantaged people dependent on Federal programs, since we didn't have any transition period, Mr. Stockman testified that they will do whatever they did do before they were in Federal programs.

Now you're waiting to see what's going to happen to these people in the State of Maryland. It appears to me there's a lot of support for fiscal responsibility. But as Governor, what really happens to these people? It's been pointed out that the aged aren't going to get any younger, the crippled aren't going to walk, the blind will not see, and the poor are still going to be poor. The Jeannettes and thousands of others are still going to be with you.

Now as Governor, in response to the chairman's question, you indicated that you can't pick up the slack. But you can't make these people disappear, either. What really happens?

Governor **HUGHES**. Well, people are going to suffer. I don't know whether Mr. Stockman would agree today with what he may have said to you months ago, but people are going to suffer. For example, in the medicaid area, we've taken some rather difficult steps here in Maryland to hold down the increased cost of medicaid. We have a hospital-cost-containment program that has been rather successful. But in addition to that, this past year we've taken some difficult steps, and it's working to some extent.

But we here in Maryland also have a State-only medical assistance program for the medically indigent, which is solely funded by the State. And so many of these people are in real need of medical care. They get help from the State based upon their income. They pay down to a certain level medical expenses and then the State picks it up from there.

Well, these people are, for a large part, really very sick people. Now if we've got to make severe cutbacks in the future, are we going to stop that program? If we stop that program, those people are not going to get the medical attention they need. There's no question about it.

Are we going to stop the child care, maternal-care health programs, which is at a time in the life of both people involved, the child and the mother, when probably health care is most important, most significant?

We're going to do what we can to hold those kinds of areas harmless, but we can't do it all. We'll have to cut elsewhere, but we still can't fill in all those gaps. I don't think there's any question about the fact that there are people who won't get the kind of medical care that they should.

Mr. **RANGEL**. So it's not just painful; you're really talking about life-and-death situations.

Governor **HUGHES**. You could, sure. Sure you are.

Mr. **RANGEL**. Thank you, Mr. Chairman.

Chairman **ROSTENKOWSKI**. Mr. Jacobs?

Mr. **JACOBS**. Governor, your reference to the letter from the woman reminded me of the reference that our President, who is known as a communicator, made the other day at his news conference to the small child. Because of Government regulation, the President said that this child had to be hospitalized at a cost far exceeding the cost of the same care in the home and that this was an example of crazy Federal regulations.

As it happens, the year before the President arrived in Washington, the Congress, in reconciliation action, removed some of those restrictions, and made possible medicare and medicaid reimbursement for freestanding clinics and other less expensive means of administering health care to such people.

Yet, it is a fact that the President himself communicated to the Congress in the reconciliation legislation of this last summer his wishes that those very reforms be repealed. And, in fact, they were repealed. In some instances, the prestanding clinics, the streamlining of the program did not take place.

Do you find some confusion in that communication?

Governor HUGHES. As you described it; yes, I do, Congressman. For example, the medicaid program, there are things that can be done that I think would reduce some of the costs—the excessive use of the hospital outpatient or emergency wards for medical treatment, that could be just as well handled and much cheaperly handled by primary care doctors. The freedom of choice prevented any direction that way.

The elimination of that kind of thing I think can permit us to continue to provide the services that are essential at a reduced cost. But there are situations, and we have this problem in some of the actions we've taken in medicaid here, there are situations where there is no other service that can be provided that's going to answer the problem but long-term hospital care.

Burn centers, some of the children's centers, addressing some in Hopkins, for example—you know that those children are going to be there for a long period of time. You know that it's going to be very, very expensive. We can't stop that kind of thing.

Mr. JACOBS. I cite the example because the President expressed great indignity at the penny-wise and pound-foolish nature which is the term that you used, sir, in your own testimony of those Government regulations which had been reformed and now have been unreformed in a penny-wise and pound-foolish cut in Federal expenditures.

I might add, Mr. Chairman, it does seem to me that the plight of the truly needy as expressed by you, Governor, in consequence of some of these penny-wise and pound-foolish decisions by the administration in Washington would probably be less paradoxical were it not for the fact that under this administration, privileges for the truly greedy have been very generous.

Would you care to comment on that or have you observed this from this distance, sir?

Governor HUGHES. Well, I think if you're referring to something, for example, as the Federal tax cut, that that might fit into the description that you give there, that it does primarily benefit those in the higher income groups. I don't think that there's any question about that.

I think probably this is one of the problems that we're facing today in that kind of drastic tax cut, and at the same time increasing military spending and saying we're going to balance the budget that way. I notice that that view has changed recently.

But I repeat what I say in my testimony—I haven't had it defined for me yet what "truly needy" means or what is going to be caught in that safety net. There's some concept or impression being given that maybe all these programs aren't really worthwhile. They're just giveaways.

That's not true. It is not true. Sure, we have some waste and we ought to do something about that. But these programs have helped a lot of people get on their feet. They help a lot of people stay healthy. And you simply can't say that we're going to turn that spigot around overnight and not have some serious effects.

Chairman ROSTENKOWSKI. Any further questions? Mr. Fowler?

Mr. **Fowler**. Just one quick question. Your observation about the suddenness of the program, swiftness in turning off the spigot, we heretofore were centering on the budget cuts, the administration's program as presented to the U.S. Congress as a two-part package, one-half being the budget cut and the other part being a very massive 5-year program of tax cuts.

The reason for the program, the reason for doing it simultaneously and with suddenness was the belief of the administration that the private opportunities, and even Mr. Stockman said there was private responsibility, that resulted from the simultaneous enactment of the budget cuts would be used to fill this void.

In Maryland, have you seen the private sector respond? Are there any renewed private efforts to fill the breeches that you described so eloquently as a result of these budget cuts?

Governor **Hughes**. Well, there has been some and I think that Mayor Schaefer could address this better than I because he has been successful in getting some of the business interests in the city to pick up some of the programs that would have been lost. And I'd rather let him describe that because he's responsible for it and he knows much more about it than I.

But to expect the private sector to fill the gap or to fill a significant portion of it, I think might be a little unreal, a little overly optimistic.

There has been an effort in the State to get corporations to join the 5-percent club, so to speak, where they can donate up to 5 percent to whatever charity they choose. There's been some success in that. It's nowhere near 5 percent, so I think raising that to 10 percent isn't going to have any significant effect.

But there has been an increase, and we have been promoting, volunteerism in State service. But there's a limit to how much you can do. We have thousands of people volunteering, for example, in our State health department. That saves us, in a very conservative figure, almost $3 million a year in costs that we would have to pay for otherwise. But there's a limit to how much of that that can be done.

I know it's nice to say we want to return to the American spirit of voluntarism and that's good. We maybe ought to have more and I think we can have more. But we can't fill that gap with it at all.

Mr. **Fowler**. Thank you, Governor, very much.

Chairman **Rostenkowski**. Mr. Brodhead?

Mr. **Brodhead**. Thank you, Mr. Chairman. Governor, I was very taken with the letter that you read from the woman, Jeannette. The problem that you pointed out I think is one that we're very familiar with. We studied that problem here in our Public Assistance Subcommittee. The Public Assistance Subcommittee of this committee has jurisdiction over our Nation's welfare programs. And when the Reagan cuts were first proposed, we discussed this matter extensively and debated it extensively in this committee. The committee went on record in favor of some cuts in the welfare programs, but not the sort that victimized this unfortunate woman.

You know, I think that people don't understand that the biggest victims of the Reagan budget cuts to date have been the working poor, those people who are actually trying to lift themselves out of poverty.

And, you know, there is waste in the welfare system. We all know that there is waste, fraud, and abuse in our Nation's welfare programs. And what I think we all hoped and expected from the Reagan administration was a targeted approach of trying to go after the waste, fraud, and abuse in these programs. But instead, they used a meat-axe approach to cut benefits and really made it impossible for millions of American families to lift themselves out of poverty. They ignored, really, I think, the ample evidence and the ample testimony before this committee that these programs have been successful. In hundreds of thousands of cases, they have been successful.

You know, the average length of stay that a person is on welfare in this country, as I'm sure you're probably aware, is about 2½ years. We know that there are chronic welfare cases where the mother, the grandmother, the children all receive welfare over a long period, but in the majority of cases, the people find a way to lift themselves out of welfare through the kinds of work incentives that we have built into the program.

But the meat-axe, across-the-board cuts, as you so eloquently pointed out, have really put people back onto the welfare rolls. They've put more people onto the welfare rolls instead of fewer.

So I'm glad that you pointed that out. We have a job to do, I think, to try and see if we can't correct that because it places an enormous burden on you as the Governor of the State trying to devise a budget. I think you're probably already finding that your welfare costs are going up.

Mr. Chairman, I know that you made great efforts to get our Republican colleagues to be with us today, and I see that we have some of our minority staff here with us. But unfortunately, our Republican colleagues were not willing to come here and listen to just how these approaches are working, and to witness the fact that many hundreds of thousands of American families have been victimized by these cuts.

And I want to congratulate you, Governor, for the insight that you have shown here in keying in on the problem. The truth, in fact, is that these welfare programs have worked in many cases. What's needed is a tighter system, a leaner budget in these welfare programs, but not a meat-ax, across-the-board cut that victimizes the working poor.

I congratulate you for pointing that out, and I assure you that many of us up here share your views. We are ready to work with you to try to restore some of the losses so that we can have the kind of welfare program that doesn't breed chronic welfare recipients, but people who will do what most Americans want to do, lift themselves out of poverty. And I thank you for that.

Governor HUGHES. Thank you.

Chairman ROSTENKOWSKI. Thank you very much. I want to thank you very much, Mr. Governor, for taking the time in a busy schedule to give us your testimony.

Governor HUGHES. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mayor Schaefer?

Thank you, Mr. Mayor, for joining us. It's very nice of you to have us here in your fair city. Please proceed with your testimony in any manner you see fit.

STATEMENT OF HON. WILLIAM DONALD SCHAEFER, MAYOR, CITY OF BALTIMORE

Mayor **Schaefer**. Mr. Chairman, let me first welcome you and the members of the committee to Baltimore City and to thank you for being here. I do not feel a stranger because I have appeared before many of you before and tried to bring to your attention the impact of the budget on cities like ours.

I want to try to get into perspective by starting and saying that I don't think that this is a Democratic or Republican hearing. I think it's a hearing on what is happening to cities like Baltimore, Memphis, and all the other cities that have been moving.

And before I get to that, I want to thank Barbara, and Senator Sarbanes, Senator Mathias, and Archie Holt, and Parren Mitchell, and all that group. There isn't a mayor in the country that gets better cooperation from a delegation than the mayor of the city of Baltimore. None. I know you like your mayors and all that. [Laughter.]

I'm very serious about this. I mean this. There isn't a time that I go to the congressional delegation that the staff doesn't help us. It isn't a matter of having to get down and beg them. It's to tell them the problem and they help us, for which I am particularly grateful.

I'm also thankful for your allowing me to come over to many of the congressional committees over the last months to tell you what the impact was on the city of Baltimore and the impacts on other cities.

I must comment on some of the things that appeared in the newspapers just very recently. Mr. Stockman said some of the things that, of course, we have been saying for some period of time. Things went a little bit too fast and that they really weren't well thought out, and the impact on cities like ours in drastic reductions of programs. And that's as far as I'll go.

I also am very concerned over articles in the paper today that said, Baltimore's mayor is a great grandson and is able to go over and get a whole lot of money and that we've got more money, the city of Baltimore, that we almost sink under the impact of the money. That's not true. We have gotten a proportionate share.

If you find out where the money went, you'll find many cities receive more money than we do. And what I am so proud of are the staff that are behind me that have been the ones that have made our city prosper, work, move ahead, do things, and that's the important thing. And the Mayor gets the publicity, but you'll hear people on the staff who are the ones who actually made it work.

One last statement before I get to what I want to talk about. All this didn't start with this mayor. It started with a mayor by the name of old Tommy D'Alessandro about 20 years ago, who had the foresight to see that the city was in trouble and started to move us. We had a succession of great mayors, and we're here at the present time.

You know, rather than just go to what I wanted to say, I could just answer some of the questions that you propounded today.

You're here at the right time at the right place. Now you'll remember that whenever I appear before congressional committees, I tell you to start with that we could not have made the progress in the city of Baltimore without the assistance of the Federal Government, without the assistance of the State government, without the assistance of our own people.

There is no way that Baltimore would be getting this national publicity if it hadn't been for the infusion of money by the Federal, and State, and local people. The difference as far as we were concerned, we tried to use it properly, we did use it properly, and we asked you after everyone of the programs had been initiated, come over and look at what we're doing. Talk to us. If you think we're doing it wrong, tell us and we'll revise it. And we've asked you time after time to come over.

Now I'm smart enough to know that your constituency isn't here, your own constituents. That's why I'm so pleased that you're here today, because you're going to see a city that's working awfully hard to do things for itself. You're going to see a city where pride has been renewed, where we have hope for the future.

And what we're saying is don't cut the budget and balance the budget on the back of the poor, the disadvantaged, the blind, those really in need of assistance. And that's what really worries me.

Waste and fraud—I mentioned that. You don't cut out a whole program because there was some waste and fraud. What you do, you find the source of the fraud. You find the source of the waste.

And I'm as guilty, I guess, as anyone in trying to do more; and more, and more for people. And I do subscribe to the theory that you do have to cut back. But you don't have to end programs that we will show you have worked. And you say, do away with the program because there was some waste and there was some fraud. Not the right approach.

Programs in the city of Baltimore. You know, when I went to Congress the first time to talk with all of you, I thought, you know, I've got to tell Congressmen and Senators, all the programs that you passed were not bad. You know, many of your programs did help the disadvantaged, did help the poor, did help the blind, did help the senior citizens. They provided housing for people. They really were effective programs. And I felt defensive to go over and tell you, you've helped people.

I don't think that we have to apologize for the fact that we did do some good programs and they were effective and they are now.

What happens to cities like ours? You've heard the Governor, and the Governor is trying. He's trying hard to help cities like ours. But if you really heard the underlying testimony, it's just this: The impact of those cuts are going to be felt in areas of need like Baltimore City, where the poor, the disadvantaged, the disabled, the senior citizens in need of help are confined. And I'll explain what the word "confined" is later on, but they're here. They're right here.

And when the State budget is cut, we are affected. A city does not get money. When the Federal budget is cut, we are hurt. And this is what I begged you all to do. Formulas that say areas of need will get Federal funds, not just distributed nationwide.

Now, Mr. Williamson seems to indicate that some city didn't get its proportionate share. Well, you know, there are some cities that can go out and tap another oil well if they get into some problems. We can't do that here. The poor are still here. And what you have to do is say to cities like Baltimore, and Detroit, and Boston, and Memphis, and other cities that are in need, you've got to say to them, we're going to help areas of need on a formula basis, and not just say that we are going to cut all the programs out, because, you know, as you cut the programs, the poor, the disadvantaged, the blind, the elderly do not disappear from our cities; they're still here. And the question is what do you do?

And that theory, let them do what they did before the programs came on, tell a senior citizen that. Tell a blind person that. Tell a disabled person that we're not going to help them. Go out to the Maryland School for the Blind like I went not too long ago and saw a kid that the parents had practically thrown away. You know why? No arms, no legs, couldn't hear, and couldn't see. And the Maryland School for the Blind, because of love, and devotion, and money, took that kid and had given him new arms, given him new legs, teaching him to hear and to speak.

Those are the programs. Those people don't disappear. They're still right here in the city of Baltimore. And while I'm all for certain things that have to be done, you can't do it quite as suddenly as you're doing it. You can't do it with the impact on areas of need the way you're doing it.

Now let me get to what I want to say. [Laughter.]

Mr. Chairman, I hope you'll give me some latitude to be able to move around. I get very nervous when I sit right here.

Chairman ROSTENKOWSKI. However you want to work it, Mr. Mayor.

Mayor SCHAEFER. OK. [Laughter.]

Let me commend my staff. Congressmen, the room never felt better. [Laughter.]

I'm so proud that they did accommodate you in every way. I'm very pleased with that.

Well, whenever we appeared before Congress, we were always treated with respect and we were given an opportunity to tell our problems. One of the problems that worried me, that there are decisions that will soon be made that will affect the budget and that will affect the city governments for years to come.

There's a potential for irreparable damage. And what we have to do is to figure out what will be the plight of the city of Baltimore and local governments if those budget cuts come through.

A city like Baltimore has come alive. It's moving. It's doing things for itself. It's increasing its assessable base. It's utilizing the programs that you've given us properly. But how will it affect now? How will the poor, the unemployed, the people that are constrained here, how will they be affected?

I think that it's vital that you get my message. I think the Republicans that didn't come here are wrong. This isn't Democrat or Republican; it's what a mayor says about the things that are happening to his people, not Democrat or Republican. What is the impact on this? How will the cuts affect ongoing budgets and budgets that have been enacted?

I never like to emphasize the unhappy; I like to emphasize the positive. I like to talk about things that we're trying to do in a positive vein. Some of the things that we've done on the positive side, we've said, if the money in the program is removed, the programs ends. Ends. We have said that we cannot pick up these programs, no matter how effective they are, impossible for it to do. We've also said that the money that we get from the Federal Government, the money that we get from the State government, and our own resources, that's all we have. We don't have any more, and we understand that. But it's very difficult for me to say to a senior citizen, a handicapped person, a blind person, an unemployed person, a young person, a young black who is out of work, it's impossible for me, or not good for me to say, OK, the program is over. Fend for yourself. It's very difficult.

CHART 1

CONTINUING PRESSURE ON FEDERAL BUDGET

Debt ceiling
Interest rates
Defense priorities
Entitlement programs

EFFECT ON LOCAL GOVERNMENT

Instability/uncertainty of resources
Inability to make sensible plans
Distress among needy
Pressure to maintain services with no additional local resources

PRESIDENT'S GOAL	LOCAL REALITY
Balance Federal budget.	Tightened the noose on local government.
Increase capital investment by private sector.	Invest in human capital.
Strong defense.	Strong defense begins at home.
Cut Federal taxes.	No other reasonable tax resources left for local government.

I'd like to just show you some charts that we have. First of all, I know that as Members of Congress, you're under continuing pressure on the debt ceiling, interest rates, defense priorities, entitlement programs. And I'm not saying that the program of the Federal Government is entirely wrong. We're all concerned about those things. We're also concerned about something else.

One, the instability and uncertainty of resources to us, the inability to make sensible plans. You know, when we have a budget going and the budget is cut by 25 percent and then another 12 percent, it's very difficult for us on this level to adjust for that and to stress among the needy. What do you think you tell your senior citizens when they go to an eating together program, one of the great Federal programs that you all passed? They say, is this program gone, too? Is this program gone, too, this program that has helped the needy and the underprivileged and has done great things for them, and the pressure to maintain services at no local additional resource. This is the highest tax rate in the State right here [indicating], and I'll get to that in a moment in chart 2.

CHART 2

BALTIMORE REALITY

43,000 unemployed
25,000 unemployed minority youths
200,000 functionally illiterate
143,000 public assistance recipients
7,000 school dropouts/year
79,000 poor elderly
191,000 food stamp recipients

This is a chart that I don't like to show. This is on the downside. This is the reality of Baltimore. What you saw were the buildings. You saw the Inner Harbor. You saw improvements of neighborhoods. And yet, right behind that, 43,000 unemployed, 25,000 unemployed minority youths.

With the CETA program, we were beginning to train for availability for jobs. Let me digress for one moment.

The Hyatt Hotel, Marion Pines, she went to the Hyatt Hotel, and she said, what we want you to do, let us give you the CETA employees that we trained as your employees. They said, we can't do that. We never heard of such a thing.

She prevailed upon them to do it, take 200 CETA employees. Of that 200 that she recommended, about 187 of them were employed by the Hyatt Hotel and they're now using that as national training. A trained CETA employee can get a job, but a person who had been referred over there without that prior training would not have gotten that job. I will bet on it; 200,000 functionally illiterate, people just to be able to read an application, to read the basic principles of being able to apply for a job; 143,000 public assistance recipients, 7,000 school dropouts in the city of Baltimore.

One of the things that worries me, a youngster has to at least have the feeling that when he gets out of school, there is a possibility that he will get a job. And so when you have 7,000 drop out of school because of the frustration that there may be no jobs for them, that's not a reflection on the educational department. It's just the opposite. Our educational department under Dr. Crew is much better than it was. It's coming along. It's one of the finest public school systems in the country; 79,000 poor elderly; 191,000 food stamp recipients.

Chart No. 3.

CHART 3

BECAUSE OF

25 percent across-the-broad cut
in health and social services
50 percent cut in CETA

BALTIMORE HAS ALREADY SACRIFICED:

14,000 CETA opportunities
10,000 public assistance recipients
10,000 food stamp recipients

2,000 fewer homes of the poor weatherized/year
13,000 youngsters preventive health care
2,000 adults' comprehensive health

Round 1, because of the 25-percent cut in health and social services, 50 percent cut in CETA, Baltimore has already absorbed the loss of 14,000 CETA opportunities, 10,000 public recipients, 10,000 food stamp recipients, 2,000 fewer homes of the poor weatherized. I'll get to that; 13,000 youngsters from adult-youth care, 2,000 adult comprehensive care.

What about the people in Baltimore? What have we done? We've reacted properly. We haven't gotten excited or violent. We've been worried about it. What about the city government?

Now I would suggest to you that no transition time was granted us to absorb the first waves of Federal budget cuts. The transition period didn't start on October 1; it started months ago when we got word that the CETA programs were cut and Marion Pine had to lay off in the metropolitan area over 4,000 public service employees. And the public service employee program was a good program. It wasn't a make-work program for the city of Baltimore. They were employed properly, they were supervised, and they did productive jobs. They were tossed out of jobs 90 days ago and last spring.

We did not imagine that the frozen EDA and mass transit funds disrupted our program. That's just fantasy.

In recent years, 14 percent of the Federal budget has been devoted to providing assistance to the Nation's cities, counties, and States. Yet, fully 66 percent of all the approved cuts were made in this 14 percent. It's abundantly clear to me that the domestic side of the ledger has borne a much larger share of the burden of the budget cuts.

Now it's difficult to adjust to such a change so rapidly on our level right here in the city. Possibly, typically, was a woman at manpower who was training about-to-be-terminated public service employees in the finer points of job interviews when she herself was going to be laid off the next day.

All right, what have we done? Chart No. 4.

CHART 4

BALTIMORE'S RESPONSE

Pay $50 weekly stipend instead of wages to CETA trainees
Close one library branch per month
Transfer reduced day care services to recreation centers
Close major neighborhood health center in Mondawmin—bus 4,000 area residents to central facility
"Blue Chip-In"/public-private partnership

When all this happened, we could have done a number of things. First of all, we could have sat down and said, tough. We can do nothing. We'll just forget it. It's not really our responsibility. We'll just stop. We sat down and we all tried to figure out what will happen to the city of Baltimore when these budget cuts are really enacted. And we were the only mayor, I think, that came over and tried to tell Congress what would happen. Many mayors are coming over now and telling you.

The cabinet reviewed the extent to which each agency has been affected by budget controls and budget cuts. Some were quite upset. Some were saying, we can't do it. Nothing else. We've cut our budgets to the bone. And then in a spirit of resourcefulness, we sat down and we tried to figure out what could be done.

The director of urban services told us about a mobile health care system that was put into place to partially offset the effects of recently closed health care centers. The assistant housing commissioner described increased emphasis on energy conservation as a means of making up the 15 percent loss in public housing assistance. The manpower director outlined a training program that would provide for citizen-participants with a $50 a week stipend to stretch our limited resources. Our social service director described a pilot effort to operate before and after day care centers in a recreation center in the city of Baltimore—all things that we could do to help ourselves.

The question was asked: Can the business community pick up the slack? Well, let me give you an example of what I did not too long ago. We brought in five businessmen that we were putting on a commission and I said to them, you're all good businessmen. Now I want you to do me a favor. I want each of you to employ five new people. Five new people. They looked at me like I had lost my mind. I said, how about four new people? And they still just looked at me in a quandary. Three? And they said, what's the matter with you? What are you doing to us today? Two? Give me one new employee.

What I'm trying to illustrate, if the business community had been able to do all of this, they would have done it. If the business community had been in a position to be able to employ all new people, they would have done it.

I'm not critical of the business community. Many of them supported the President and they knew that they had to do something about it. So what did they do? We brought the business community in and we said to them, OK, we've been cut on all of these programs and we've prepared a book called "Blue Chip-In," and we gave them this book. Figure it out. The reason it was so simple was so that the mayor could understand it. On top here [indicating] the job, the cost, the number of jobs, and a simple explanation of what the project was. We took every Federal program that had been cut and we put it in the book.

The business community said, we don't understand all of this. We don't understand what you're doing.

They went away, they reviewed the book. They came back and said, OK, here's home care for the elderly, $32,000 funded by two businesses, and so these are marked. So that the business community decided that they would come up with $500,000 to pick up some of the programs. But that cannot match the $80 million that we lost as a result of budget cuts and fund reduction. The business community in the city of Baltimore has done as much as any other business community in the United States in the situation that they were in.

Now let me try this on for size. We have most of the poor, most of the hungry, most of the unemployed, most of the disadvantaged living in the city of Baltimore, confined to the city. Our tax rate is double the tax rate of the surrounding areas—$6—and we've got to have assistance for cities like ours.

I want to give you a sense of what we're up against. It's essential that you know what will happen if we cut the budget an additional 12 percent.

CHART 5

PROPOSED 12 PERCENT CUT WOULD GUT

Youth and adult skill training programs
  (dropout training, occupational training, summer jobs)
Maternal and child care health programs
  (nutrition, immunization, prenatal care, vision)
Drug abuse and alcohol treatment programs
  (we must choose only one)
Weatherization programs
Camp Concern (overnight and day camping for inner-city youth)
Handicapped educational services
  (drop 25 teachers of handicapped)
Counseling programs in schools
  (would be eliminated)
Municipal services dependent on revenue
  (fire protection cut by 30 percent)
Economic development efforts
  (IRB's, EDA and UDAG)
School lunch program
  (5,000 fewer meals/day)

Round 2. We cut the budget an additional 12 percent. Now I met with the President and the Cabinet and the President said, in no uncertain words, I want 12 additional percent. I think it's necessary. I looked at the President and I thought, I know what you're trying to do. But do you honestly know the impact on a city like ours? You can't all of a sudden say the poor will be taken care of sometime. Now is sometime. The poor are right here and you just can't stop taking care of people right now. And you can't wait for the business community to intervene and pick up all the slack because they can't do it. It's impossible for them to do.

Youth and adult skill training center programs will be cut. Summer Job Corps, one of the essentials as far as our cities are concerned. Maternal and child care programs. Drug abuse and all the ones that we have listed there.

The Governor talked about the definition of the terms "needy poor," "social safety net." I don't know what those terms mean, either. I don't know exactly what they mean. But I know one thing: Those additional 12-percent cuts in our budget will just about end us as far as providing anything for the poor. I worry about the elderly and the handicapped and the unemployed. What are we going to do for them? And I worry about the working poor that you talked about, the people who struggle to keep their heads above water. They're being dealt a very heavy blow and these are the folks who require just an additional bit of help. Many of those are being eliminated from eligibility programs.

I'm troubled about proposed indiscriminate across-the-board cuts. One of the things that worries me, no one asks what the impact of these things would be on a mayor. I ask the other mayors, does anybody call you and tell you what would happen? I don't know of any. We should have the opportunity to have some real input as to what these cuts meant as far as Baltimore is concerned.

General revenue sharing. Every mayor in the country feels that general revenue sharing is one of the best programs that the Federal Government ever had. The President has said that he is going to do away with revenue sharing and come up with something else.

I would say if the program is working and you know it's working and it's a foundation, why do you have to replace it with something else? A 12-percent cut in revenue sharing this year would mean a 12-percent cut in the fire department, which would have to be absorbed by the other departments in the city, and we could not afford that.

Another worry we have was industrial revenue bonds, and I think we've clearly demonstrated what our worry is about that.

OK, what are some of the suggestions that we're making? One, hold off any further cuts until we can absorb what we have. And two, review effective and noneffective programs and just not do away with all programs; do away with the programs that are ineffective or filled with waste, whatever the problem might be, and keep the good programs. One other thing—be sure that somewhere in the legislation there is a formula for areas of need. Areas of need. Not areas like some of the southern—way down yonder where they don't need any money, but areas of need. [Laughter.]

And the last thing, this theory of giving us the power to tax and putting it back into subdivisions like ours—impossible. We have the highest tax rate now. One-third of our people pay taxes. One-third of our people pay some taxes. And one-third are recipients. If you overtax the one-third that are still in the city paying taxes, they are going to leave. And the young people that we have in the city that are living here now, that want to stay in the city, they will be forced to go out to Baltimore County where Donnie Hutchinson is, where the tax rate is half of ours. [Laughter.]

And we can't afford to lose one taxpayer. And to bring it back and to say, we want to give you the power to impose the tax, that won't work. It will work in some areas where the tax rate is very low.

Let me stop now and tell you that I am very pleased to have you here in the city of Baltimore. I hope that I have made my message loud and clear. We appreciate what you have done for us. You have helped a city like ours immeasurably. You've helped the people in our city. You've made us a city that can be proud to be a city, a city that is a good, effective city. But we do need your continuing assistance if we're going to move on.

Chairman Rostenkowski. Thank you very much, Mr. Mayor. Any questions? Mr. Heftel?

Mr. Heftel. Mr. Mayor, have you examined the impact on the medicaid program and health care for the needy to the point that you have an opinion on whether we have to have a system that limits freedom of choice for the needy if we are, in fact, going to continue to provide meaningful health care for them?

Mayor SCHAEFER. I think you're going to get that answer on one of the panels. I can't quite give you the answer.

Mr. HEFTEL. Thank you very much.

Chairman ROSTENKOWSKI. Mr. Shannon?

Mr. SHANNON. Thank you, Mr. Chairman. Mr. Mayor, first of all let me say that I lived in Baltimore for 3 years when I was a student at Johns Hopkins University early in the 1970's and the city has changed dramatically since I was a student with Sandy Jordan, as a matter of fact.

We're going into a recession now, it's pretty clear. What's going to happen to Baltimore when we have cutbacks in the Federal programs that you've outlined and a growing recession? Are you going to be insulated from that because of all of the economic development that has taken place here?

Mayor SCHAEFER. No; we're not, Congressman. You see, I think we can just say that the Hyatt Hotel, one hotel that we built with the aid of the Federal Government, pays more taxes than the whole area did 5 years ago. But we still haven't reduced the amount of the poor and disadvantaged in this city. And to take that away, until we're able to bring that assessable base up, and it will be some time, we're still going to need that assistance.

Let me tell you what our priorities are right now. At the cabinet meeting, we say to our people, we have three priorities right now. One, housing this winter so that every person in the city is at least temporarily housed if they have an emergency situation in good housing. We have set up a network that we can take care of providing food for everyone. The third is we've got clothing for everyone.

So our whole emphasis now is to get us through a very difficult time.

Mr. SHANNON. Well, you know, there are those who say that Baltimore is doing great. It doesn't need the Federal Government any more. What you're telling us is that Baltimore still has a lot of poor people, a lot of needy people, a lot of people out of work, and a recession coming on. And that a Federal cutback is going to affect Baltimore severely.

Mayor SCHAEFER. Yes, sir. Let me give you this. If the rest of the State, if all the counties would say to Baltimore City, we recognize that you have most of the poor, and we have it documented, we will take 10 percent of the poor in your subdivisions, they can't do it politically. They can't do it under any circumstances.

What I'm trying to say, they've got to recognize that they've got to treat a city like Baltimore City, Somerset County, counties and cities in absolute need, a little differently and not just distribute resources. You've got to help an area of need if you're going to keep those poor confined to that area. And that's what I worry about, because if you isolate yourself in Washington and you don't really get down—you walk the streets with me just any day or any night, people will come up to me and say, I need a job, people that are not malingerers and people that are just talking about a job, but absolutely want a job. I can't provide it for them.

So what I'm saying, the State and the Federal Government have to recognize areas of need, which is so important.

Mr. **Shannon**. Thank you, Mr. Mayor.

Chairman **Rostenkowski**. Mr. Guarini?

Mr. **Guarini**. Mayor Schaefer, is the private sector doing anything to pick up the gap, charitable institutions, where they are called upon to help the human service program?

Mayor **Schaefer**. Yes, they are. This blue chip-in, many of the programs in the blue chip-in program, let me just cite one, the weatherization program, which was a great Federal progam. Last year, with Federal assistance, we weatherized 4,000 senior citizens' and poor people's homes, saved them money, did a good job. The program was wiped out. The gas and electric company under Bernard Trueschler picked up the program, gave us $52,000 a year.

What we've done is set up a private, nonprofit corporation. They give us the money. We then hire the people, which are CETA employees, out-of-work employees. We are now weatherizing the homes with the money from the private sector.

The U.S.F. & G. has worked in. Monumental Corp., a number of them.

Mr. **Guarini**. But have they been more charitable to the various charities and the institutions like the Red Cross and the Salvation Army and the March of Dimes and the United Way?

Mayor **Schaefer**. Yes. I'm glad to say that they did not decrease their contributions to the United Way. One of the problems, our burden is going to pull more money away from the charitable organizations. We haven't found that yet. They're meeting that responsibility, but they're also making contributions to the city.

Now the $500,000, as I say, is a lot of money, but it doesn't make up for the tremendous amount of money that we lost in programs. Our business community has been very fine. I'm very proud of them.

Mr. **Guarini**. Just lastly, Mayor Schaefer, in regard to job training, CETA, of course, is being phased out and seriously impaired. Is the private industry doing very much to cooperate with the city in training the young people and unemployed people for jobs?

Mayor **Schaefer**. I think Marion will be able to give you a much better answer. My own observation of that, the CETA program really worked in the city of Baltimore. When you have a disadvantaged youngster who doesn't know that he should work on Mondays as well as Fridays, that he knows he has to be on time, that he has to really get down to the very basics of what a job is, that's our job. I go back to what I said with Hyatt. Had Marion not trained these 200 people, I seriously doubt if 50 would have gotten jobs with Hyatt. So that CETA program is one of the truly great programs. Change its name, change it to something else, but don't do away with the training and manpower programs. It's cities like ours where we can train people even to look for jobs in other jurisdictions. But there's no future—remember, a person out of a job—unemployment, welfare or crime. And you can see a corollary with unemployment and crime. High unemployment is crime. And Mayor Voinovich, one of the great mayors of Cleveland, has all the charts to show exactly what happened in Cleveland when unemployment increased and crime increased.

Mr. GUARINI. Thank you. You're a great credit to your city, Mayor.

Chairman ROSTENKOWSKI. Mr. Pease?

Mr. PEASE. Thank you, Mr. Chairman, and thank you, Mr. Mayor, for very dynamic testimony. The most telling part of your testimony for me was the statistics that you used. With a very aggressive program of approaching private industry, you were able to raise $500,000, is that right? But you calculate your loss of Federal funds at about $80 million?

Mayor SCHAEFER. That's right.

Mr. PEASE. I think I hear you saying it's totally impractical to look to private industry to replace Federal funds. I think you said it's totally impractical to look for higher local taxes to replace those funds.

Would you also say that's true for the State government, that you can't look to them to totally replace Federal funds?

Mayor SCHAEFER. What will happen on the State level, I have no criticism of the government. I think he'd like to do more for the city, but there are political realities in the world. He has a legislature that he must deal with.

I, unfortunately, think that unless I am able to impress on the various secretaries, and I'm using this as a chance to hit some of them now, unless I'm able to really let them understand where the poor are, I think that we're going to suffer a disproportionate share of the reduction.

Now I'm working on that very acutely and I'm using this to get to them. The answer is, the business community, you can't say to the business community within 1 month, pick up all the problems of the city. They just can't do it. They will work with you. They say, if you give us 6 or 8 months' leadtime, we'll be able to come up with a program because our budgets are set. We don't have 6 or 8 months.

When Marion was told to lay off 3,000 people, it was that month, gone. Those public service employees were not picked up by the private sector. What we did, we helped them get jobs, we encouraged them in the private sector, and some of them were, maybe a third to a half, were picked up in the private sector because they were trained. They were then working.

I don't expect the business community to do this. When you can get a business community that was zero and went up to $500,000 in a short period of time and picked up programs that we think were essential and they thought were essential, I think it's pretty good.

Mr. PEASE. Thank you.

Chairman ROSTENKOWSKI. Mr. Russo?

Mr. RUSSO. Mr. Mayor, as a practical matter, even if we gave the business community 8 months' leadtime or 1 year leadtime, would they make up $80 million?

Mayor SCHAEFER. No. No, sir.

Mr. RUSSO. Let me just ask you one question about the people themselves. Assuming that the Federal Government is going to continue cutting as they are, and the State is not going to be able to do the job, and you can't do the job you'd like to do, what happens to the people?

Mayor **Schaefer**. Well, what we'll do, we'll continue to cut back and cut back and cut back on services. As I said, we have only three priorities now for the winter for this season going—food, housing, and clothing. I think you'll see less lotteries in operation. I think you'll see less recreation centers in operation, less multipurpose centers in operation. I think you'll see many of the programs that the senior citizens have really been benefited by in the area of medical care will be cut back to where they just won't be there.

Mr. **Russo**. What do all these people do when all of these services are gone, the necessary, needed services? What do they do?

Mayor **Schaefer**. Go back in their rooms and sit and look at the walls. Now that sounds like a very dramatic answer, but you know, one of the great programs that you had were this eating together program and the programs that brought senior citizens out where they became productive again. An opportunity for a handicapped person for a job—you know, when the jobs get tougher, it makes it very difficult on the handicapped and the blind and other programs.

Like to go to that Maryland School for the Blind, if we could just take everyone out there and see what they can do, some hope for some people that are disadvantaged, they'll just be cut back. We'll do what we can, but we'll be cut back.

Mr. **Russo**. We just had a visit to the John F. Kennedy Institute for the Handicapped. Is the city going to be able to help with any funding?

Mayor **Schaefer**. No, sir. No, sir. Remember what I said: We have the highest tax rate in the State. One-third of our people really pay taxes, one-third. That means either a third are recipients or they pay some taxes and really do not take care of the services they get.

Mr. **Russo**. Thank you, Mayor.

Chairman **Rostenkowski** Mr. Matsui?

Mr. **Matsui**. Mayor Schaefer, you had on one of your charts the possibility of cutting, if we have a 12-percent further cut in the Federal budget, 30 percent off of your fire department. I would imagine that you are probably looking to the police department as well.

I found that when I was in city government, it was really quite impossible to cut those two basic services. You may have to come up with additional revenues if further Federal budget cuts are made. You did say that your property taxes probably couldn't be raised any more because of the pressure upon your citizens.

What about gross receipts tax for businesses? What about special fees for building permits and these kinds of things? Are these being contemplated now and are you considering them?

Mayor **Schaefer**. Mr. Matsui, we have them all. We have just about every tax that you can imagine in the city of Baltimore. They took the earnings tax away from us and gave the piggy-back tax to us, which is not advantageous to our city, where the penny is not as good as a penny in Montgomery County. We raise about $350,000; they may raise $500,000 on the one penny.

Let me get back to the police departments and the cuts that you talked about. We will not cut the police department, the fire department, the department of education. They are our three priorities. People are worried to death over crime. So we have no way of contemplating cutting out the police department, any reduction.

In fact, we were over with Commissioner Bataglia this morning and he told us what he's doing in the area of crime. He's doing a magnificent job.

The fire department. It's down to where it's as low as it can go right now; 93 percent of the budget of the fire department is wages, and so that's only 7 percent for equipment. And we haven't been able to buy equipment for the fire department for about 3 or 4 years.

Education. You have to have a good educational system in a city like ours, or no young people will come into the city. People of means will not locate in the city.

So we have the three priorities. And then after that, every other budget in the city will absorb. In other words, the housing department, if we have to cut the fire department, it will be made up by a reduction in the housing department or the health department or recreation or library or whatever it is. That's how we're going to do it.

Chairman ROSTENKOWSKI. Mr. Anthony?

Mr. ANTHONY. Thank you, Mr. Chairman. I would like to just say, Mayor Schaefer, I'd like to nominate you in the long line of great mayors that the city has had. I think you qualify, especially from your presentation today.

Just one cautionary comment that you did make. When you say study the areas of need and the funding formula, and then you made some comment to the fact that some people in the South are doing pretty well. [Laughter.]

I happen to be the newest member of the committee and I come from the South, the State of Arkansas. The families in my State just recently, because of budgetary constraints that we've had in Arkansas, we have had over 34,000 families affected by reduced AFDC benefits. In fact, our benefits were dropped from $188 per month down to $142 per month for a family of four, dropping from the standard of need of 69 percent to 52 percent.

So when you say take a close look at those funding formulas, I hope that you will join me and rewrite them so that they do, in fact, go to the areas of need because I think that there are more than the cities that you represent in the State of Maryland.

Mayor SCHAEFER. I think that's so important, areas of need. We practically begged to look at a formula that really does give an area of need some advantage in getting the Federal funds.

Don will talk about accounting, a very fine accountant. He doesn't need the same assistance that we do. He needs some assistance, but not the need that we have because he knows it, we know it—people are confined to the city, and I use that word confined. That's where they are. They're here. And you have to be able to provide and care for them.

Mr. ANTHONY. Well, and just don't be blinded by the fact that everybody in the South is doing well. There are some spots that really aren't.

Mayor SCHAEFER. All right.

Chairman ROSTENKOWSKI. Mr. Bailey?

Mr. **Bailey**. Thank you, Mr. Chairman. I will be very brief. Mr. Mayor, there's been some reference here to the inability of the city and State to make up for the sudden change. Given what you have available to you to tax, constitutional, Federal and State limitations and constraints, competition between State and local jurisdictions all across the country for tax bases, the truth in fact is that you don't have the tax base available to you, and you won't have the tax base available to you to replace these Federal programs. Isn't that true?

Mayor **Schaefer**. That's absolutely true, Congressman. We had to remove an inventory tax because we couldn't compete with the rest of the State. We had a 10-percent inventory tax. When the 10-percent inventory tax didn't make any difference when business was booming and all the rest, that's fine. The inventory tax, we had to remove that if we were to get any industry to come into the city or to remain in the city. You're right.

George Piendak could give you a list of all the taxes. We've taxed everybody. We've increased the cost of police reports from a dollar over a period of years to $6, $7. After a time, nobody gets a police report.

So you're right, if we had another method of taxing, we'd do it, but there isn't any more.

Mr. **Bailey**. Thank you.

Chairman **Rostenkowski**. Thank you very much, Mr. Mayor. You've been quite helpful.

Mayor **Schaefer**. Thank you.

Chairman **Rostenkowski**. Mr. Schaefer—I'm sorry—Mr. Hutchinson?

STATEMENT OF HON. DONALD P. HUTCHINSON, BALTIMORE COUNTY EXECUTIVE

Mr. **Hutchinson**. Thank you very much, Mr. Chairman.

Chairman **Rostenkowski**. Welcome, Mr. Hutchinson. Thanks for joining us this morning and on behalf of the committee, we look forward to your testimony.

Mr. **Hutchinson**. Thank you very much. My name is Don Hutchinson and I am the elected Baltimore County executive. Baltimore County is a county of 650,000 people. We surround Baltimore City, but under the Maryland State constitution, we are completely separate and apart from the city. In fact, the city is considered under our State constitution to be on coequal terms with all of the other 23 counties.

Baltimore County has no municipalities within its subdivision. That means that we serve as the same rule with the traditional cities around the country and we provide all the governmental services that traditionally, a local government provides.

Mr. Chairman, I am reminded of that story of, and some of you may be familiar with it—after listening to Governor Hughes and Mayor Schaefer talk about some of the problems of the State and local governments, I'm reminded of that story of Casey Stengel and Mickey Mantle, when Casey Stengel was asked to appear before a congressional committee and he spent an hour and a half doing his traditional Yankee doubletalk. And after he was done, the committee chairman said, Mr. Mantle, do you have anything to add, and he said, yes, I agree with Casey.

It would be very easy for me to say that I agree with Governor Hughes and Mayor Schaefer and, in fact, I do agree completely with their position. I think it's important for you to know that Baltimore County, like the other subdivisions of the State of Maryland, have some of their own unique problems and they are very much impacted by the Reagan budget cuts.

Baltimore County, as I suggested, has 650,000 people. We are a rural, suburban, and urban county. We have most of our people that live within about 4 miles, both sides of the Baltimore beltway.

So while we have 610 square miles of space, the fact is that most of our people live within the urbanized communities of the Baltimore metropolitan area.

You will hear today many, many different people testifying giving you statistics. And some of the questions you have asked have been questions about people. I want to talk specifically about people and I want to give you somewhat of a typical case study.

I want to start with a typical welfare or working poor family of four in Baltimore County. Like hundreds of other similar families in our county, this family might already have lost income assistance, food stamps, medical aid during the cutback order of last month. If not, chances are good that this family will receive at least a reduction in benefits under the proposed cutbacks. If one member of the family is currently working at a minimum wage, he or she may well be forced in order to qualify for enough aid to keep the family fed. That, at least, would resolve the problem of who will mind the children, since cutbacks have also reduced availability of day care to low-income working parents.

The Federal employment and training progam, CETA, does offer some hope for this family in terms of job opportunity, but this program, too, is now in jeopardy. Right now, CETA in Baltimore County can provide the unemployed with job skills, work experience, and counseling for an average cost of about $1,708. The average cost of maintaining our typical family of four on welfare is $7,900. Since 1979, Baltimore County CETA has served almost 13,000 residents. The program currently places 50 percent of its clients in private sector jobs and 30 percent in advanced training programs. After training, the typical CETA participant here will earn back the quivalent of all training costs in approximately 14 weeks. Within 2 years, that individual will have paid back all training costs in terms of income tax.

CETA touches other members of the family, too. For instance, if a family has a child who is a school dropout and criminal offender, CETA can provide specialized counseling, education and job training. Of the some 4,000 youths who have been helped by CETA here, 80 percent found jobs in the private sector or returned to school. The cost, again, was an average of $1,708 per youth. The youthful offender who seeks a life of crime instead may be incarcerated at a cost of between $15,000 and $20,000 per year.

The younger child in our typical poor family does not escape the direct impact of budget reductions either. Cutbacks in title I education funds will mean this child will receive less special reading instruction now provided for children who come from economically deprived homes. The school system simply won't have the funds to hire the reading aides needed for this program.

This reduction will also diminish the number of in-school jobs available in economically deprived communities. If the child has an interest in vocational instruction, proposed cutbacks will also reduce his chances of eventually enrolling in specialized training programs aimed at equipping him for a job after high school graduation.

If the child happens to be handicapped or have learning disabilities, he can expect to fall further behind in his studies when special education funding is reduced.

Further, cuts in Federal aid to schoollunch programs have caused prices to increase so much that many students have simply stopped buying lunches. The schoolchild in our typical welfare family paid 10 cents for a reduced price lunch in 1980. Today, he/she pays 40 cents.

This same needy family will feel the impact of Federal cutbacks in terms of health care. Local programs currently facing reductions include well-child clinics, prenatal care, family planning, pediatric consultation, school health, and mental health counseling. Grants for high blood pressure screening and cervical cancer control have been eliminated.

As of October 1, we can no longer provide special health and nutrition aid to pregnant mothers until the sixth month of pregnancy, at which time damage to the child may have occurred. Indeed, October 1 changes in alcohol and drug counseling regulations eliminated public assistance for this group. We have already experienced drastic cutbacks in funding for employment training and independent living for handicapped persons in Baltimore County.

With all the growing problems our welfare or working poor family is facing, it is obviously impossible for the family to offer much assistance to an aging grandmother. And she has problems of her own. Putting aside the worst-case scenario for a moment, let's consider the conditions facing the typical Baltimore County senior, one who is representative of about 25,000 people in this category in Baltimore County.

Mrs. Brown, age 71, lives alone in a home she owns. She is in reasonably good health for her age. Mrs. Brown's "fixed income" from all sources is only $390, while her fixed costs are about $320. This puts her well beyond the eligibility for medicaid and most other Federal entitlement programs and certainly far beyond State programs such as GPA or Pharmacy Assistance, et cetera.

With such little financial margin, Mrs. Brown and thousands like her can only be described as "economic time bombs." Fear for them is a daily companion—fear of crime, fear of the heater stopping, the refrigerator breaking, the taxes going up, the utility bills going up, their health diminishing.

The Reagan administration's proposals will do absolutely nothing for the Mrs. Browns. She doesn't pay Federal income taxes, so she doesn't benefit from Federal tax cuts. Further, social security cost of living adjustments don't keep up with the real inflation of costs that a senior citizen has to contend with, especially when the basics of food, housing and health care often soar far ahead of the rest of the CPI.

Statistically, manipulating the construction of that index or adjusting the social security cost of living adjustment downward to the rate of wage increase will inevitably force millions of elderly Americans into poverty.

Medicaid reduction in the face of increasing demands on State programs, many of which are already running deficits, runs counter to the purported goal of creating a "social safety net." It's fine to give the States more flexibility for purchasing services and allowing them to pay for less expensive home health services. In theory, it sounds very cost effective, but what will we do with all those people who are currently occupying medicaid beds? Do we evict 5 here so that we can give assistance to 10 out there in their homes? Where will we get the money to begin offering in-home services when the money that we had last year has been reduced 25 percent and, on top of that, the costs of health care that it would have provided have increased another 11 percent?

Other social service program spending reductions impact the elderly in a variety of ways. Cuts in the Older American Act have a very direct impact—such as the reduction of program days at Mrs. Brown's senior center and her inability to get a hot meal there.

Because of cuts in the CETA program, an outreach worker may not be able to visit her for weeks, or transportation may be reduced because the CETA-funded driver is no longer working. And if Mrs. Brown didn't own her own home, she would encounter another very serious problem—the inadequacy of subsidized housing in the county. Projections show that by 1995, some 15,000 Baltimore Countians will have been priced out of the private housing market.

Let's move on now for a moment from families and individuals in obvious need of help to typical middle-income families in Baltimore County who will feel the impact of proposed cutbacks in a serious, though less direct manner. The indirect impact would be felt in a wide variety of ways, but particularly in three areas: Public safety, quality of community life, and increased local tax burdens.

As you know, Federal LEAA moneys have already been withdrawn, thus limiting local government's ability to experiment with programs aimed at crime reduction. In Baltimore County, those funds have been put to very good use. They fostered such programs as neighborhood action teams, specialized police training, assistance to victims and witnesses to crime, offender tracking systems, drug and alcohol treatment, victim restitution programs, family crisis and sexual assault counseling, and a number of youth treatment programs which have produced enormous successes with juvenile offenders.

Local resources have already been strained in our efforts to maintain LEAA programs with local funds. Further, anticipated cutbacks in juvenile justice and drug counseling funds could have a terrible impact on the ability of local jurisdictions to control crime at a time when crime rates are spiraling everywhere. Consider just the impact of reducing our ability to deal with drug abusers. A 10-year study of 243 heroin addicts in Baltimore showed this group of people alone committed 473,738 offenses from 1969 to 1979. That's nearly 2,000 offenses each. Unbelievable. And if you don't think that jobs and what is happening in Washington has an impact on crime rates in cities and in counties, then your head is in the sand

and I know that that is not the case with the members of this committee.

The impact of cutbacks on the quality of community life is more subtle, but no less serious on a long-term basis. For example, cutbacks in a variety of categories could seriously inhibit local government's ability to do the following: Revitalize older commercial and residental areas; provide necessary improvements on roads, sewers, waste water treatment facilities; provide employers with subsidies for job training and low cost loans for expansion.

In essence, the quality of life in our community will be downgraded by the proposed Federal cutbacks and will be felt not only by those who experience immediate reductions in aid, but by individuals at all age levels.

The question has been asked about taxes and can the private sector and does the private sector make up the difference? Let me hit that final point—taxes, and talk about local government for a minute and talk about the private sector for just a second.

The mayor referred to the United Way campaign in central Maryland. We have Baltimore City and all of the surrounding counties participating in that campaign. We had the most successful campaign that we have ever had in central Maryland. Last year, the United Way campaign raised an amount in excess of $19 million. This year, the United Way campaign raised almost $22 million. The private sector is doing a better job. But that doesn't compare, Congressmen, to the $80 million cost for loss of revenues to the city that the mayor just recited. Nor does it suggest that the United Way is meeting the budgetary needs of the United Way agencies.

We have 100-plus United Way agencies. Their budgetary requests were in excess of $25 million. That gives the United Way a $3 million shortfall, one of the private sector foundations that we're going to be dependent upon to make up the difference for Federal cutbacks.

Now let's talk politics for a moment because I think that everybody in this room understands politics. At least if you did not, you wouldn't be here. You wouldn't have been so successful in your own political careers.

The mayor has suggested that in Baltimore City, he cannot in any way make up for the differences in losses, revenue losses, in the local government tax rate. And the Congressman asked whether or not we have the resources, the financial tax resources to make up the difference?

The problem is, Congressmen, the problem is that the Federal Government and the State government have a myriad of taxing resources to pay for governmental programs. But the counties and the cities depend upon the singular, most unpopular form of governmental taxation, the property tax.

If any of you went back to your constituency and told your constituency that you were cutting Federal tax programs, but that they would be paying more out of the right pocket rather than the left pocket in property taxes, I would suggest to you that not one person, not one person would suggest that the property tax is the more equitable tax.

Now let's put it on a more political basis even than that. Let's take a history of my county and of the metropolitan counties in central Maryland. Let me hit you with a cold fact. In the history of my county, we have never had a two-term county executive. Never. [Laughter.]

We had one that was elected a second term, but because of personal problems, he didn't complete his term. In the history of our county, we have never had a two-term county executive.

In 1978, when I was elected county executive after having served 10 years in the State legislature, in 1978, the county executive in Howard County was defeated, the incumbent county executive. The incumbent county executive in Hartford County was defeated. The incumbent county executive in Prince George's County was defeated. The incumbent county executive in Montgomery County chose not to run for reelection. The incumbent county executive in my county ran for Governor and finished third in his own county. [Laughter.]

One county executive was reelected. Not all of these fellows were incompetent public officials. Most of them were very good, decent executives. The fact of the matter is that besides some local issues, which obviously have impact, the fact of the matter is that people at the local level have to finance the critical governmental services by the property tax. And while the services that we provide are considered to be the most critical services that any governmental agency provides, public safety, education, public works improvements, trash collection, all those things that we provide, they're paid for primarily out of the property tax structure.

And yes, we can make up for some of the slack. Yes; we in Baltimore County do have every year increased revenues from the property tax. And yes, to date, there has been no great public outcry yet. But to make up for the moneys that we will lose in impact aid, in revenue sharing, in title I programs, in EPA grants, in social service grants, in health grants, to try to begin to make up that difference would be political suicide for any locally elected governmental official and it's not going to happen.

And as a result of that, the people that we've been talking about will, in fact, have a poor education if they're handicapped, will, in fact, perhaps not have a meal if they go to the senior center and their meal is cut out, perhaps will not be able to go to the doctor because of decreases in health care, perhaps will have to return to their family to live because they don't have the means for an independent house.

The President last year in that famous debate asked the question to the American voter: "Are you better off today than you were 4 years ago," a very opportune time to ask the question, particularly since he was speaking last.

The fact of the matter is that we could ask the same question today: Are you better off, Mr. Citizen, than you were a year ago and will you be better off under these programs 3 years from now? And some will most certainly say yes—the self-sustaining and the wealthy. But the handicapped and the elderly, the poor, the person that cannot take care of themselves, they most certainly, gentleman, will say, absolutely not.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF HON. DONALD P. HUTCHINSON, BALTIMORE COUNTY EXECUTIVE

Thank you, Mr. Chairman.

I appear here today on behalf of a political jurisdiction which, by virtue of its size and governmental structure, is nearly unique in the United States. As you know, Baltimore County borders the City of Baltimore on three sides; it covers 610 square miles and houses some 660,000 people. While it is essentially a sophisticated urban community, it also encompasses a significant amount of agricultural lands, making it at once an urban, suburban and rural subdivision. And unlike almost any other large county, Baltimore County contains no incorporated municipalities. Rather, all local services are provided by a single, centralized County government. In many ways, it is a county which functions like a city.

Yet, while Baltimore County's structure is rather unique, its people are extremely representative of the general population in this country. Ours is a county of upper, middle, and working classes; of welfare families; of handicapped and aging individuals. The impact of the federal budget reductions you are considering will be felt by each group of people in Baltimore County, from middle and low income families who may ultimately pay higher local taxes to offset federal cutbacks, to the working-poor and welfare families who will bear the brunt of cutbacks directly.

During your hearings on this issue, you will no doubt hear many numbers and see many charts describing the specific dollar impact that cutbacks will have on State and local budgets and programs. I would like to spend a few minutes today telling you about the impact those cutbacks will have on people.

Let's start with the typical welfare or working-poor family of four. Like hundreds of others in Baltimore County, this family might already have lost its income-assistance, food stamps, and medical aid during the cutbacks ordered last month. If not, chances are good that this family will receive at least a reduction in benefits under the proposed cutbacks. If one member of the family is currently working at a minimum wage, he or she may well be forced to quit in order to qualify for enough aid to keep the family fed. That, at least, would resolve the problem of who will mind the children, since cutbacks have also reduced availability of daycare to low-income working parents.

The federal employment and training program, CETA, does offer some hope for this family in terms of job opportunity, but this program, too, is now in jeopardy. Right now, CETA in Baltimore County can provide the unemployed with job skills, work experience and counseling for an average cost of about $1,708. The average cost of maintaining our typical family of four on welfare is $7,900. Since 1979, Baltimore County CETA has served 12,735 residents. The program currently places 50 percent of its clients in private sector jobs and 30 percent in advanced training programs. After training, the typical CETA participant here will earn back the equivalent of all training costs in 14 weeks. Within two years, that individual will have paid back all training costs in terms of income tax.

CETA touches other members of the family, too. For instance, if the family has a child who is a school drop-out and criminal offender, CETA can provide specialized counseling, education and job-training. Of the some 4,000 youths who've been helped by CETA here, 80 percent found jobs in the private sector or returned to school. The cost, again, was an average of $1,708 per youth. The youthful offender who seeks a life of crime, instead, may well be incarcerated at a cost of between $15,000 and $20,000 per year.

The younger child in our typical poor family does not escape the direct impact of budget reductions either. Cutbacks in Title I education funds will mean this child will receive less special reading instruction now provided for children who come from economically-deprived homes. The school system simply won't have the funds to hire the reading aides needed for this program. This reduction will also diminish the number of in-school jobs available in economically-deprived communities. If the child has an interest in vocational instruction, proposed cutbacks will also reduce his chances of eventually enrolling in specialized training programs aimed at equipping him for a job after high school graduation. If the child happens to be handicapped or have learning disabilities, he can expect to fall further behind in his studies when special education funding is reduced. In fact, federal funding for mandated special education programs has always been inadequate. The million dollars Baltimore County once received in federal Impact Aid could have been used to fill some of the gaps in the past, but that program is now being phased out completely.

Further, cuts in federal aid to school lunch programs have caused prices to increase so much that many students have simply stopped buying lunches. The school child in our typical welfare family paid 10 cents for a reduced price lunch in 1980. Today, he/she pays 40 cents.

This same needy family will feel the impact of federal cutbacks in terms of health care. Local programs currently facing reductions include well-child clinics, prenatal care, family planning, pediatric consultation, school health, and mental health counseling. Grants for high blood-pressure screening, and cervical cancer control have been eliminated. As of October 1, we can no longer provide special health and nutrition aid to pregnant mothers until the 6th month of pregnancy, at which time damage to the child may have occurred. Indeed, October 1 changes in alcohol and drug counseling regulations eliminated public assistance for this group. We have already experienced drastic cutbacks in funding for employment training and independent living for handicapped persons in Baltimore County.

With all the growing problems our welfare or working-poor family is facing, it is obviously impossible for the family to offer much assistance to an aging grandmother. And she has problems of her own. Putting aside the worst-case scenario for a moment, let's consider the conditions facing the typical Baltimore County senior, one who is representative of about 25,000 people in this category in Baltimore County.

Mrs. Brown, age 71, lives alone in a home she owns. She is in reasonably good health for her age. Mrs. Brown's "fixed income" from all sources is only $390, while her fixed costs are about $320. This puts her well beyond the eligibility for Medicaid and most other Federal entitlement programs and certainly far beyond State programs such as GPA or Pharmacy Assistance, etc. With such little financial margin, Mrs. Brown and thousands like her can only be described as "economic time-bombs." Fear for them is a daily companion—fear of crime, fear of the heater stopping, the refrigerator breaking, the taxes going up, the utility bills going up, their health diminishing.

The Reagan Administration's proposals will do absolutely nothing for the Mrs. Browns. She doesn't pay Federal income taxes, so she doesn't benefit from Federal tax cuts. Further, Social Security cost of living adjustments don't keep up with the real inflation of costs that a senior citizen has to contend with, especially when the basics of food, housing, and health care often soar far ahead of the rest of the CPI. Statistically manipulating the construction of that index or adjusting the Social Security cost of living adjustment downward to the rate of wage increase will inevitably force millions of elderly Americans into poverty.

Medicaid reduction in the face of increasing demands on State programs, many of which are already running deficits, runs counter to the purported goal of creating a "social safety net." It's fine to give the states more flexibility for purchasing services and allowing them to pay for less expensive home health services. In theory it sounds very cost effective, but what will we do with all those people who are currently occupying Medicaid beds? Do we evict five here so that we can give assistance to ten out there in their homes? Where will we get the money to begin offering in-home services when the money that we had last year has been reduced 25 percent and, on top of that, the costs of the health care that it would have provided have increased by another 11 percent?

Other social service program spending reductions impact the elderly in a variety of ways. Cuts in the Older Americans Act have very direct impact—such as the reduction in program days at Mrs. Brown's Senior Center and her inability to get a hot meal there. Because of cuts in the CETA program, an outreach worker may not be able to visit her for weeks, or transportation may be reduced because the CETA-funded driver is no longer working. And if Mrs. Brown didn't own her own home, she would encounter another very serious problem, the inadequacy of subsidized housing in the County. Projections show that by 1995, some 15,000 Baltimore Countians will have been priced out of the private housing market.

Let's move on now for a moment from families and individuals in obvious need of help to typical middle-income families in Baltimore County who will feel the impact of proposed cutbacks in a serious, though less direct manner. The indirect impact would be felt in a wide variety of ways, but particularly in three areas: public safety, quality of community life, and increased local tax burdens.

As you know, federal LEAA monies have already been withdrawn, thus limiting local government's ability to experiment with programs aimed at crime reduction. In Baltimore County, those funds had been put to very good use. They fostered such programs as Neighborhood Action Teams, specialized police training, assistance to victims and witnesses to crime, offender tracking systems, drug and alcohol treatment, victim restitution programs, family crisis and sexual assault counseling, and a number of youth treatment programs which have produced enormous successes with juvenile offenders. Local resources have already been strained in our efforts to maintain LEAA programs with local funds. Further, anticipated cutbacks in juvenile justice and drug counseling funds could have a terrible impact on the ability of local jurisdictions to control crime at a time when crime rates are spiralling everywhere. Consider just the impact of reducing our ability to deal with drug abusers. A 10-year study of 243 heroin addicts in Baltimore showed this group of people alone committed 473,738 offenses from 1969 to 1979. That's nearly 2,000 offenses each.

The impact of cutbacks on the quality of community life is more subtle but no less serious on a long-term basis. For example:

As a result of the proposed reductions in the Federal budget during the next several years, funding for sewerage projects would be greatly reduced and may even disappear. At these reduced levels, Maryland will not be able to expeditiously fund projects that are necessary to meet water quality or health goals. Presently, Maryland receives approximately 90 million dollars a year for Construction Grants funding under Section 201 of the Clean Water Act Amendments, 1977. The Reagan proposal is to reduce that amount to 60 million dollars initially, with complete funding being eliminated in stages from 1982 to 1985, according to Anne Gorsuch, Environmental Protection Agency Director. The Federal thrust requires that less money will be available for new growth and development, upgrading old facilities and infiltration and inflow projects.

The State Health Department believes that it can identify a 600 million dollar need in the State for these type projects. These also include improvement of wastewater treatment facilities for secondary and advanced treatment. These reductions will substantially affect most movement toward achieving advanced treatment of all wastewater discharges in the State. It will also affect the major improvements planned at our area's major wastewater treatment facility which includes not only improved wastewater effluent quality, but also the installation of an incinerator system to dispose of sludge in the metropolitan area by 1989.

The possible implications of this action could result in continued water quality problems and sludge management problems. The worst-case scenario would include a moratorium on building in the projected Baltimore County Growth Towncenters, resulting from the inability to manage increases in wastewater inputs and sludge outputs.

Federal cutbacks in a variety of categories could seriously inhibit local government's ability to revitalize older commercial and residential areas, to provide necessary improvements in roads and public facilities, to provide employers with subsidies for job-training and low-cost loans for expansion. In essence, the quality of life in our communities will be downgraded by the proposed federal cutbacks and will be felt not only by those who experience immediate reductions in aid, but by individuals at all wage levels.

Of course, there is a limit to the amount of reduction of services local government can permit in the community. The ultimate result of the proposed federal cutbacks may well be an increase in local property taxes, one of the least equitable taxing structures in the nation, but the only major one available to local governments. The federal government may be putting a few extra dollars in the taxpayers' left pocket while it is forcing local government to take more dollars from the right. The Reagan Administration may feel there is safety in distance, that it will not be blamed for local tax increases, but local taxpayers have grown increasingly shrewd about deception. Taxing shell games don't fool anybody anymore.

I would like to emphasize here that local governments do fully recognize their responsibility to cut costs and increase efficiency. Indeed, local governments have responded impressively to cutbacks which have already occurred. For example, in Baltimore County, we lost 1,000 County workers this year when the CETA public employment program was eliminated. This figure represented nearly 12 percent of our local workforce. We have managed, so far, to compensate for this loss by doubling up on duties and examining every budget category, no matter how small, for opportunities to cut costs. We have begun selling off surplus County properties; we've reduced our teaching staff; we've downsized our County vehicle fleet and limited its use; we've eliminated out-of-state travel; we are reducing purchasing, and, where feasible, we are not filling personnel vacancies.

Our scrutiny of costs extends to even the most minor items. In our Social Service Department, for instance, you will find:

Elimination of postage paid return envelopes; a switch from flat rate to bulk rate mailings; no staff to accompany foster children when they travel to and from out-of-state placements; elimination of use of registered mail; severe limits on the use of long distance calls, and tighter travel reimbursement policy.

I think it is becoming increasingly clear that local governments are streamlining their operations and searching for ways to absorb cuts in federal funding. But we need time to determine what the actual dollar impact will be of federal budget cuts made last month. Many health and social service programs have been consolidated into State-administered block grants. We cannot assess the precise local impact of many existing cuts until we have been involved in a State budget process under the new budget guidelines. The federal cutbacks which have already been made will mean that some local programs will be cut, others will be funded with increased State dollars. We strongly urge that no further cuts be contemplated until we have had the opportunity to determine the impact of existing cuts.

At the very least today, I urge you to give local and State governments a reprieve from further federal budget reductions. At a time when the growth rate of local revenues from income taxes is declining, and unemployment is increasing the demand for local social services, local governments simply cannot be expected to respond if their federal funding resources are permitted to erode further.

At best, I would hope that you will take back to Washington the message that cutbacks in direct aid and reductions in funding to State and local governments will ultimately produce very little real savings for taxpayers, but will produce very real hardships for all segments of our population. Indeed, the impact of the federal cutbacks we have discussed today could place in jeopardy the very basic nature of life in America.

Chairman ROSTENKOWSKI. Thank you, Mr. Hutchinson. Mr. Ford?

Mr. FORD. Thank you, Mr. Chairman. I have one question for the county executive. Well, I have two questions. The first one, are you going to seek reelection? [Laughter.]

Mr. HUTCHINSON. Yes; I intend to do that with eyes behind my head at all times.

Mr. FORD. You know, Mr. Hutchinson, President Reagan, in his budget reconciliation bill and the new cuts presented to the Congress in September promised to protect the needy and he promised to maintain a safety net.

Would you say that there are those who are classified as the truly needy who might be slipping through that safety net at this particular time?

Mr. HUTCHINSON. I don't think that there's any question about that. We see it in Baltimore County all the time. The family that I suggested to you is a family that would fall through. We have hundreds of families like that in Baltimore County.

Mr. FORD. So there are those who are classified as truly needy who are slipping through that safety net.

Mr. HUTCHINSON. Sure, no question about it. No question about it.

Mr. FORD. Thank you very much.

Chairman ROSTENKOWSKI. Thank you, Mr. Hutchinson.

Mr. HUTCHINSON. Thank you very much, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Trump, Dr. LaFever, Ms. McGowens?

Welcome to the committee, ladies and gentlemen. I'm afraid that I'm going to have to remind you to please keep your statements to 5 minutes. We would suggest that you summarize your statements and then we will ask questions. Would you identify yourself for the record and proceed into your testimony?

Mr. Trump, would you lead off?

STATEMENT OF RODNEY TRUMP, VICE PRESIDENT, UNITED AUTO WORKERS LOCAL NO. 239, ACCOMPANIED BY RONALD E. METZGER

Mr. TRUMP. Thank you, Mr. Chairman. Mr. Chairman and members of the committee, I would like to thank you on behalf of the people who have elected me to represent them for the opportunity you have afforded us to be heard today before this committee.

I have brought with me also a laid-off autoworker, since I am the vice president of UAW General Motors here in Baltimore, so that you could also hear his testimony, and to tell that that, in general summary, everything that you have heard today from our elected political representatives we concur with, we support. It's true. Two-thirds of our people are on layoff today.

We're not having a recession, sir, for, to quote the President, a recession is the guy next door. It's a depression when you're laid off. And we've got two-thirds of our work force on layoff. Half of that for 2 years now, nearly. The other half since this summer. And the budget cuts that just came through, there's not hardly a one, as I made a list, that didn't affect my people.

The ones that the President proposes to come through Congress will just add the insult to the injury or just a smaller bone. But we are truly cognizant of what Mr. Stockman said in giving the little guy the bone. We feel it very clearly. But we'd like to think that that's a wishbone, sir. We'll take that bone and we'll make a wish, that this committee and this Congress, the true representative of the people, can hear from the workers that aren't working but want to, and when they can't, don't deserve to go hungry because they paid the taxes when they did work.

They will be heard and heard through the forum today, and that instead of a very gloomy and pessimistic future, it can be turned the other way and become a very optimistic and bright future.

Thank you very much, sir.

STATEMENT OF MARINANNE LaFEVER, M.D., MERCY SOUTHERN HEALTH CENTER

Dr. LaFever. Mr. Chairman and committee members, I have been invited to discuss the effect current and proposed reductions in Federal funding will have on the delivery of services and the operation of Mercy Southern Health Center. In order to appreciate the effect that these reductions will have, it is necessary to understand the community our center serves, the relationship between the center and the community, and the umbilical cord linkage that we have with our parent institution, Mercy Hospital.

The center is located in an urban, predominantly white, blue collar, depressed area of south Baltimore. Their financial stability is dependent on construction, Bethlehem Steel, the shipping industry, the auto plant, and light industry, all of which are presently very depressed sectors of the U.S. economy.

The majority of our patients have welfare, supplemental security income, and/or medical assistance.

Mercy Southern was founded by the Sisters of Mercy in conjunction with the city health department 10 years ago. This was done to meet community needs since the area had no local medical care for the indigent. The city has provided us with rent-free space since then.

Mercy Southern has offered services on the principle that no one is turned away, regardless of their ability to pay. To do this, we scaled our charges. Charges for the same type of visit may vary from $1 to $15, depending on the patient's income. If they cannot pay, we give the bill to the hospital charity fund.

We provide a complete range of pediatric and adult services for both emergency and chronic care, and we facilitate social services by our knowledge of a patient's needs and of community resources such as the Emergency Food Relief Organization, fuel and housing assistance, and clothing distribution.

Frequently, a patient may be able to afford our scaled-down clinic fees, but is then unable to afford his $10, $20 or $30 medication charge. We have an arrangement with a neighborhood pharmacy to charge the prescription to our account so that a patient will continue to receive needed medication for free while the center pays the bill.

Presently, there are two physicians and three nurse practitioners providing 24-hour patient care, with a support staff of people employed from the neighborhood. I am one of the two physicians and am board certified in family practice.

None of this could exist without the support of Mercy Hospital. All our personnel are paid employees of Mercy. For them, we are a money-losing operation to the extent of $100,000 a year. The hosital board pays this out of funds of $350,000 per year allocated for Outreach services and the emergency room. If the hospital were unable to provide this support, we would be closed tomorrow. This would throw a large number of indigent patients onto the private community doctors who cannot have the same policy toward payment which we have, or else forcing them to turn to delaying care and making the emergency room their primary treatment center, a proven cost escalator.

I would like to provide an example of how present health care costs are adversely affecting Mercy's ability to continue funding a neighborhood health center such as Mercy Southern.

Specifically, since 1981, medical assistance will pay for only 20 days of hospitalization, regardless of the patient's medical need to remain hospitalized.

My first example is of a baby girl born at Mercy Hospital on June 19, 1981. She was 2½ months premature and born to a single mother with no insurance or income. At birth, she made two or three feeble attempts to breathe and then quit breathing. She had a very weak heartbeat, was dark blue from lack of oxygen, and was not moving at all. She weighed 1½ pounds at birth.

She had a tube immediately placed into her lung and was attached to a mechanical ventilating machine, a respirator, to breathe for her. This was the beginning of 2 months of continuous, life-threatening crises for this tiny child. She had infections in her bloodstream, stiff lungs, jaundice, seizures, repeated partial collapse of her lungs, multiple episodes of severely slowed heart rate, and numerous episodes of very low oxygen levels in her blood.

She was treated on a respirator for 2 months. She received antibiotics, medication for seizures, and required 24-hour intensive care coverage by both nurses and physicians. She finally improved and was discharged to her mother on September 23, 1981, after a hospital stay of 3 months and four days.

The total hospital bill was $54,000. Medical assistance paid $13,000. The balance of $41,000 was written off to charity by Mercy

Hospital. Since the 20-day limit on payment was imposed, Mercy has lost $229,000, in this fashion, over the period from January to September of 1981.

My first example was one in which the individual patient costs are extreme. My second example illustrates the more common case in which the expenses are not large, but the costs in human care are just as great.

The Federal Government has recently cut back on VA outpatient services. Many longtime patients are being terminated from their clinics, regardless of their financial situation and are told to find their own medical care. I offer you an example from our center just recently.

A 52-year-old gentleman with a totally disabling heart disease was discontinued from his VA clinic. He receives $371 a month from disability. He had no money and no idea of where to go for care. After running out of his medication, he came to our center so ill from heart failure that I strongly considered hospitalizing him on an emergency basis. Instead, I restarted his medication and followed him over the next 14 hours until it was evident that he was going to improve on outpatient care.

Mercy Southern has so far seen him seven times at one-third pay and paid for his medication initially. He has an unpaid bill of $54. If he were charged at full pay, it would cost $115 or about a third of his monthly check. However, we managed to prevent a hospital stay of at least $200 a day by being available for 24-hour coverage.

I think that this example illustrates very clearly the things we are seeing at our center. Because patients are not able to pay for health services after Federal cutbacks, they are delaying care until they become so ill, they are emergencies and, correspondingly, costly health care expenditures.

Our unpaid bills are mounting rapidly by continuing to provide pharmacy and medical services to people cut from their former health care or their pharmacy assistance cards. For example, we had underwritten pharmacy charges of approximately $100 per month prior to September of 1981. We are now underwriting pharamacy charges of approximately $400 a month.

Our proportion of scaled-down payments is rising with subsequently less income to meet our rising expenditures.

How will all this affect Mercy Southern? As Mercy Hospital continues to lose large amounts of money by the 20-day hospitalization limit, it will be forced to cut back or discontinue services at neighborhood health care centers such as ours. As the Federal Government continues to disband services, our charitable writeoffs will make our operating losses even more pronounced and make us even more financially dependent on a mother institution, itself with rapidly dwindling charitable resources.

In a time when jobs are scarce and costs are rising, there will be more people unable to afford medical care and our historically charitable institutions will not be able to fill this need because of their own tightening revenues.

Dr. Mead, the vice president of medical affairs for Mercy Hospital, wrote in his attached supplemental statement, and I quote "The costs for us don't go away because we are not paid for them. The headlines that proclaim 'Cost Cuts in Medicare and Medicaid' should more properly read 'Payment Cuts in Medicare and Medicaid.'"

Thank you very much.

[The prepared statement follows:]

STATEMENT OF MARIANNE LAFEVER, M.D., MERCY SOUTHERN HEALTH CENTER

I have been invited by this Committee to discuss the effect current and proposed reductions in Federal funds will have on the delivery of services and the operation of Mercy Southern Health Center. It is necessary to understand the community our center serves the relationship between the center and the community, and the umbilical cord linkage we have to our parent institution, Mercy Hospital, in order to appreciate the effect reductions in health care funding will have.

The Center is located in an urban, predominately white, blue collar, depressed area whose financial stability is dependent on construction, Bethlehem Steel, the shipping industry, the auto plant, and light industry—all of which are presently very depressed sectors of the U.S. economy. The great majority of our patients have DSS, SSI and/or medical assistance.

Mercy Southern was founded by the Sisters of Mercy 10 years ago in response to community needs since the area had no local medical care for the indigent. It has operated on the principle that no one is turned away regardless of ability to pay. We scale our charges. Charges for the same type of visit may vary from $1 to $15 depending on a patient's income. If they cannot pay we give the bill to charity. We provide a complete range of pediatric and adult services—both emergency and chronic care, and we facilitate social services by our knowledge of a patient's needs and of community resources such as the emergency food relief organization, fuel and housing assistance, and clothing distribution. Frequently a patient may be able to afford our scaled down clinic fee but may not be able to buy his $10, $20 or $30 medicine. We have an arrangement with a neighborhood pharmacy to charge the prescription to our account so that a patient will receive needed medication for free while the Center pays the bill.

Presently, there are two physicians and 3 nurse practitioners providing 24-hour patient care, with a support staff of people employed from the neighborhood. I am one of the two physicians and am board certified in Family Practice.

None of this could exist without the support of Mercy Hospital. All our personnel are paid employees of Mercy. We are a money losing operation to the tune of $100,000 per year. The hospital Board pays this out of funds of $350,000 per year allocated for outreach centers and the emergency room. If the hospital were unable to provide this support we would be closed tomorrow—throwing a large number of indigent patients into private community doctors who cannot have the same policies toward payment we have or forcing many to turn to delaying care and making the emergency room their primary treatment center—a proven cost escalator (40 percent of Mercy E. R. bills are not paid).

I would like to provide an example of how present health care cuts are adversely affecting Mercy's ability to continue funding a neighborhood center such as Mercy Southern. Specifically, since 1981, Medical Assistance will pay for only 20 days hospitalization, regardless of the patient's medical need to remain hospitalized.

Example 1: On June 19, 1981 a baby girl was born at Mercy Hospital 2½ months prematurely to a single mother with no insurance or income. At birth she made 2 or 3 gasps for air then quite breathing, had a very weak heart beat, was dark blue from oxygen lack, and was not moving. She weighed 1½ lbs. She had a tube immediately placed in to her lung, and was attached to a mechanical ventilating machine, a respirator, to breathe for her. This was the beginning of 2 months of continuous life threatening crises for this tiny child. She had infections in her blood stream, stiff lungs, yellow jaundice, seizures, repeated partial collapse of her lungs, multiple episodes of severely slowed heart rate, and numerous episodes of very low oxygen levels in her blood. She was discharged to her mother on September 23, 1981, after a hospital stay of 3 months, 4 days. The total hospital bill was $54,513.60. Medical Assistance paid $13,322.37. The balance of $41,191.23 was written off to charity by Mercy Hospital. Since the 20-day limit on payment was imposed, Mercy has lost $229,323 over the period from January to Septembr 1981.

The Federal government has recently cut back on V.A. outpatient services. Many longtime patients are being terminated—regardless of the financial situation—and are told to find their own medical care. I offer you an example from our clinic.

A 52 year old gentleman with a totally disabling heart disease was discontinued from his longtime V.A. clinic. He received $371/month from DSS. He had no money and no idea where to go for care. After running out of his medicine, he came to our clinic so ill that I strongly considered hospitalizing him on an emergency basis. Instead, I restarted his medicine and followed him over the next 14 hours until it was evident he was going to improve on outpatient care. Mercy Southern has so far seen him 7 times at ⅓ pay ($1/visit) and paid for his medication initially, with an unpaid bill of $54. If he were charged at full pay, it would cost $115 or about a third of his monthly check. However, we managed to save an, at least, $200/day hospital stay.

I think this example illustrates very clearly the things we are seeing at our center. (1) Patients are delaying care until they are so ill they become emergencies and correspondingly costly health expenditures because they are unable to pay for health services after Federal cutbacks. (2) Our unpaid bills are mounting rapidly by continuing to provide pharmacy and medical services to people cut from the former health care or their pharmacy assistance cards. Our pharmacy bill had been about $100/month prior to September 1981. It is now about $400/month. (3) Our proportion of scaled down payments is rising with subsequently less income to meet rising expenditures.

How will this effect Mercy Southern? As Mercy Hospital continues to lose large amounts of money by the 20-day limit on hospitalization, it will be forced to cut back or discontinue services at neighborhood health centers such as ours. As Federal government continues to disband services, our charitable write-offs will make our operating losses even more pronounced and make us more financially dependent on a mother institution with rapidly dwindling charitable resources.

In a time when jobs are scarce and costs are rising rapidly, there will be more people unable to afford medical care and our historically charitable institutions will be unable to fill this need because of their own tightening revenues.

Thank you.

Chairman ROSTENKOWSKI. Ms. McGowens?

STATEMENT OF LOUISE W. McGOWENS, WAXTER SENIOR CENTER

Ms. McGOWENS. I wanted to start my paper off with good morning——

Ms. MIKULSKI. Ms. McGowens, could you use your microphone.

Ms. McGOWENS [continuing]. Members of the House Ways and Means Committee, Mr. Governor, Mr. Mayor, and guests, but so far, the mayor and the Governor have left. So I'll just say Ways and Means of the House Committee.

My name is Louise McGowens and I am a retired senior citizen from the Waxter Center, who lives in Baltimore City. I have lived in Baltimore for 60 years and have worked in Baltimore about 50 years. I'm very proud of my city and do hope that during your short visit here today that you will have the opportunity to see more of the sights that have made me a comfortable resident in the past.

The times that are before us now will be difficult and the strength of the cities and the people who hold them together will be tested. This special strength will have to come from those of us who have believed in our Government and who have participated in our Government and who are not being provided for adequately.

I am here today to share with you my concerns about the problems that I am facing as a senior citizen living without many of the benefits and the possible loss of some that I feel I have earned as a worker upon my retirement in this society.

I must admit that as a retired member of our society at the age of 69 and a believer in taking care of myself, I am dismayed at all that I must face and be subjected to as a result of all the budget cutting that has been done as well as what is to come.

I don't live in an expensive neighborhood. I don't eat fancy foods. I can't afford expensive clothing, nor do I own a car. But I feel that I am still entitled to live comfortably and without fear in the city of my choice.

I find myself these days watching television more in my spare time, mostly not for entertainment, but to find out how I am affected by what is decided by my Government, the Government that for 35 years religiously deducted from my wages payments to social security without any decision on my part, but with my understanding that this money would help me years later to continue to live with pride as a senior citizen. The same Government that I felt was going to return to me upon my retirement some adequate assistance to live based on my contributions is disappointing me.

My retirement began when I was 62 years of age and at that time social security provided me with only $85 a month. Also at that time, I received SSI payments that allowed me to receive food stamps and medical treatments at a minimal cost.

Later, when I became 65, social security raised my benefits, which then did not allow me to receive food stamps or my medical assistance on which I truly depended. This raise did not cover those expenses that SSI did, which made me purchase fewer groceries and limit my visits to the doctor.

Though my payments have risen, I am able to buy less. My money today does not equal the money that I have given. I am sharing with a granddaughter because my benefits do not allow me to be independent of help from wherever I can get it. I am now also working, at the age of 69, a part-time job 2 days a week so that I do not become an additional burden to my family or to the welfare system in Maryland, which has become overloaded.

Every part of my life has been readjusted. Transportation cost for me has risen. The cost of the transportation to earn additional money has gone from 15 cents to 20 cents. I find myself buying fewer tokens to do the things that I might enjoy so that I can go to work. I seldom buy tokens for my own pleasure. Without the aid of food stamps, I am not able to purchase the variety of foods that I need and do require because of a health condition. I have become more selective in my grocery shopping and have to go to different foodstores to take advantage of reasonable prices even though I buy less.

I am very frightened that I will not be able to continue to care for myself because the money that I do receive from social security is my major source of income. Should I receive less money during this time of high costs for everything, I would not be able to continue to make it. I would become very depressed if I had to become a burden. I have a lot of pride.

I have read where a great deal of money has been cut from many social security and social programs. I feel upset because good programs, that were made to help people like me solve some of their problems, are gone. Programs that provide recreation for senior citizens are closing down. Programs that help senior citizens from being placed in institutions have closed their doors.

Transportation for senior citizens and meals for many of us who need them are not as available. Many senior citizens now cannot afford to go out and spend our small amount of money or depend on daily lunch meals or even see one another if places are not open for us to gather. For many of us seniors, our sources of pleasure are limited to what is provided to us by the city and the State with help from the Federal Government.

Lastly, with so many people suffering from lost jobs and little money, the streets all over the country will soon be less than safe for senior citizens. I personally try to get home early every day that I go out. I am afraid that youngsters and people without jobs will think that I am carrying valuables and/or money and will harm me. Being elderly and alone on streets makes me a good target for a crime.

It is important to me that you understand that as a senior citizen life is difficult. Even more challenging than ever. I am faced with all the problems of living as you are, but I don't have a lifetime ahead of me to work, and the resources provided by my Government are dwindling. Remember, I have given.

Thank you for your time.

Chairman ROSTENKOWSKI. Thank you, Ms. McGowens. Mr. Trump, you mentioned that you had a young man with you, Mr. Metzger.

Mr. TRUMP. Thank you, Mr. Chairman. If I may——

Chairman ROSTENKOWSKI. He's an unemployed autoworker?

Mr. TRUMP. If I may, sir, I'd like to introduce Ron Metzger, who is an unemployed autoworker here in Baltimore.

STATEMENT OF RONALD E. METZGER, BALTIMORE, MD.

Chairman ROSTENKOWSKI. How long have you been unemployed?

Mr. METZGER. Since June.

Chairman ROSTENKOWSKI. June?

Mr. METZGER. Yes, sir.

Chairman ROSTENKOWSKI. How many children do you have?

Mr. METZGER. Three.

Chairman ROSTENKOWSKI. And you worked for 13 years and because of cutbacks and the recession, you're unemployed.

Mr. METZGER. That's correct. Not only is that correct, but—I had a prepared statement, but I can do without it—not only is that correct, but I'd like to say that I've been months looking for a job. There's no employment in Maryland, none that can match the auto industry, none that can match the financial security that I've given my family. Right now, I'm considering leaving the State of Maryland and leaving my family behind, leaving them here, to go to work in Louisiana, where they are hiring in the auto industry, until such time that GM can call me back here to Baltimore.

Chairman ROSTENKOWSKI. How are you living? What are you living on now?

Mr. METZGER. Well, I was living off of unemployment and TRA, but the TRA was stopped, and I'm receiving unemployment and SUB pay from General Motors. However, as the SUB pay is depleted, it would take more and more credits from me, and I'm going to be running out of that shortly Time is running out for me. I have to do something right away.

Chairman ROSTENKOWSKI. How old are your children?

Mr. METZGER. I have a girl 10, a girl 9, and a baby 7 weeks old.

[The prepared statement follows:]

STATEMENT OF RONALD E. METZGER, BALTIMORE, MD.

Mr. Chairman, Members of the House Ways and Means Committee, Distinguished Guests, Ladies and Gentlemen: I have worked at General Motors Assembly Division in Baltimore for the past thirteen (13) years, since graduating from high school in 1968.

At age eighteen (18), I decided on assembly work because of the high pay and good benefits. I came to General Motors without job skills or training, but I worked hard to promote myself inside the assembly line system. I learned the work was hard and the chances for advancement were little, but I stayed on for the same reason everyone else had. Money. My weekly pay check provided me with a good standard of living, so I resolved myself to the fact that as long as I continue to build cars and trucks for General Motors, I would gain financial security and eventually retirement.

As my seniority had grown, so did a feeling of job security and I began to think about how I wanted to live my life. I decided I wanted to marry, buy a house and raise a family.

Today, I am proud to say, I have a beautiful wife and in September with the birth of my son, I now have three (3) wonderful children and a nice home, and all the bills and responsibilities that accompany such a commitment.

Everything was working fine, until December 1979 when General Motors stopped the second shift passenger car production in the Baltimore plant, and a large layoff began. I continued to work because of an agreement won by our local union to protect our seniority rights. However, there was an uneasy feeling starting to grow as I thought of what the future may bring and how it would affect my job security and my life.

On June 19, 1981, General Motors stopped all truck production in Baltimore and advised me I would be temporarily laid off until September 24, 1981, at which time passenger car production would resume on the second shift. I was laid off in line with my seniority and the local union helped me with filing an unemployment claim and advised me I was eligible for up to 52 weeks T.R.A. benefits.

The combination of unemployment and T.R.A. kept my standard of living about the same and helped to calm my fears.

In August, I was advised by General Motors that plans to start new production have been cancelled and I had been placed on indefinite layoff status. By September, I was advised by Unemployment that I would not be entitled to the remaining eight (8) months of T.R.A. until I had exhausted my unemployment insurance, which means my weekly income was cut in half, and there was still no prospect of finding a new job.

I contacted our union hall and was advised that I was eligible for supplemental unemployment benefits from General Motors that would almost match what I had lost from T.R.A. I had earned a maximum 52 credits and by registering my unemployment checks with General Motors, a SUB check would be mailed each week, but General Motors would deduct (at this point) one (1) credit per check, and as the SUB fund declined, the credit deduction would increase. Therefore, there was no guarantee how long I would remain eligible.

After months of job hunting in Baltimore and surrounding counties, I believe that time is running out for me and I must take more aggressive action to find financial security, in order to maintain the standard of living I've provided for my family.

I am now planning for the possibility of leaving the State of Maryland and leaving my family and friends behind to work in another assembly plant in Louisiana, until I am recalled to General Motors in Baltimore, or the prospects for good employment are better in Maryland.

T.R.A. would be a great help to me now when I need it the most, not after I've used all of my unemployment benefits.

I am sure I speak for every unemployed auto worker when I say I'd rather be working, but if I can't work and support my family in the auto industry, give me a chance to find another way. We need a job—until then we need T.R.A. now.

Mr. BRODHEAD. One comment, Mr. Chairman. I think one of the budget cuts that hasn't been talked about today, but it is particularly onerous on working people, is the cut in college-aid programs. You know, Members of Congress sometimes talk among ourselves about the difficulty of making tuition payments for kids in college.

We've had a good Federal program in place for college students to provide loans and grants at subsidized interest rates. I come from a district where there are a lot of autoworkers, and this was one of the things that they counted on. They can't save enough money out of their pay to put a child through a college or a university today. But one of the things that they were counting on was this program of Federal assistance. The cutbacks in that program have been very, very demoralizing to a lot of people.

Is that the situation here, too, Mr. Trump?

Mr. **Trump**. Yes, Congressman, it is, even to the point that TRA affects the moving allowance of people's ability to move with the assistance of Government, as well as the training program, that it affects them in their ability to learn a new trade.

For example, right now everyone knows the automobile is in very serious trouble and one of the ways it's going to get out of it is robotization, Mr. Chairman. The robotization simply means that we've got more autoworkers going out of a job.

So I hear, on one hand, that private industry is supposed to jump in and help us and yet, they're going to help themselves by naturally, cutting costs by bringing in robotization, which cuts off people and then the budget cut just cuts their income to where they don't have any money and then they can't afford to move to go get a job somewhere else. And then they can't get trained, as you say, Congressman, to learn a new trade or a new skill to build up a new future any other way than what they previously had.

So there's no place to go but to the bottom on that safety net that's not there, as we've just heard from the mayor and the county executive and the Governor. The safety net is gone.

Chairman **Rostenkowski**. Mr. Heftel?

Mr. **Heftel**. I just thought that it was appropriate to reflect on the fact that regardless of political affiliation, these are problems from very real people who should be talking to all of the representatives in our congressional system. And unfortunately, Mr. Chairman, I find that there are no members of the other party from our committee present. I think it is an indictment of their concern and I think in the future, they should be aware of the need for them to participate and to find out what the people are saying about the legislation we pass and the condition of the economy in the country today. Thank you.

Chairman **Rostenkowski**. Well, the Chair would just like to point out that all members of the committee were invited to participate. Nobody was overlooked as far as the invitation is concerned. Of course, that's a judgment that the members have to make. Thank you very much.

Ms. **Mikulski**. Mr. Chairman, before you excuse the committee, I'd like to just make two points. One, Maryland is a State that has a hospital cost containment program. Also, it has taken provable, positive steps in its medicaid program to discipline itself in its costs. Dr. Joseph Mead, the vice president of medical services at Mercy, developed the supplemental statement showing just how Federal cuts would impact a private, philanthropic hospital under such a discipline, to show that the good guys are actually even being penalized more than in certain areas where there has not been this self-discipline.

I would like his statement entered into the record, if I may.

Chairman ROSTENKOWSKI. Without objection, it is so ordered.

[The prepared statement of Joseph A. Mead, Jr., M.D., follows:]

STATEMENT OF JOSEPH A. MEAD, JR., M.D., VICE PRESIDENT FOR MEDICAL AFFAIRS AND PROFESSIONAL SERVICES, MERCY HOSPITAL, INC., BALTIMORE, MD.

Mercy Hospital is a 350 bed acute general hospital located in downtown Baltimore, Maryland. It is a major teaching affiliate of the University of Maryland School of Medicine. There are approximately 10,000 patients admitted annually for a total of 100,000 patient days. Seventeen percent of the patients are Medicaid and 42 percent Medicare. The percentage of Medicare patients has been increasing each year.

The hospital is operated under the sponsorship of the Sisters of Mercy and the direction of a Board of Trustees composed of Sisters and community leaders. It has been at this same location for over a hundred years and declined a move to the suburbs in order that it might more faithfully carry out a mission of Christian service through providing health care of the highest attainable quality to the sick of every color, creed and condition.

In addition to the traditional hospital role of providing inpatient service Mercy has an active outpatient service and emergency service located at the hospital and three satellite health centers located in residential communities served by the hospital. These centers are jointly sponsored by the Mercy Hospital and the Baltimore City Health Department. Each was established at the request of the Health Department and the communities in neighborhoods where there was a specific need for primary care. These centers are Mercy Harbel, Mercy Little Italy and Mercy Southern Health Centers. The Mercy outpatient facilities have eighty thousand patient visits annually.

Mercy Hospital's rates are established by the Health Services Cost Review Commission. All parties pay the established rates, including Medicaid and Medicare. This has been an important and salutory factor in enabling the hospital to obtain the resources necessary to fulfill its health care mission. The revenue generated from patient care rates, however, is less than the total required. The hospital Board of Trustees annually allocates funds from income on a modest endowment to offset operating losses from outpatient and emergency services. In this fiscal year, this will amount to over $350,000.

Early in 1981, the State of Maryland imposed restrictions on Medicaid payments in order to overcome a severe budget shortage in Medicaid funds. These restrictions were apparently very successful in alleviating the State's problems, but did result in new financial problems for the hospital. In the last six months of fiscal year 1981, the hospital experienced a loss of $150,000 and in fiscal year 1982 expects to lose $400,000 from uncollected Medicaid charges. These charges are predominately in the Neonatal Intensive Care service where patient stays beyond 20 days are virtually out of our control. Without continued care beyond the Medicaid 20-day limit, the infants involved face certain death.

These losses have placed a severe strain on our ability to finance our continuing community health services. Positions have been reduced both in the hospital and the outreach services. At this time we are able to continue our full service commitments. Further cuts would most certainly require some curtailment of services. Mercy Hospital is nonetheless resolute in its commitment to service to the community of Baltimore and will provide care to all, within its available resources, as it has for the past one hundred years.

We recognize your obligation to achieve cost reductions and a balance in the economy, just as we hope you recognize our obligation to balance our budget and live within our resources. We incur significant costs in treating Medicaid and Medicare patients. The costs for us don't go away simply because we are not paid for them. Headlines proclaiming "cost cuts in Medicare and Medicaid" should more properly read "payment cuts."

We at Mercy, are grateful to the Department of Health and Mental Hygiene of the State of Maryland for their very kind and fair treatment of our requests and for their considerate guidance in our patient care programs.

The Health Services Cost Review Commission has been an excellent system for the control of hospital costs in Maryland and always available for immediate, full and fair consideration of problems within their jurisdiction. I recommend them to you as a model for State-level rate regulation.

In conclusion, I wish to express my gratitude to the House Ways and Means Committee for the opportunity to present the Mercy Hospital experiences in patient care programs and cost curtailment. We ask only that the full dimensions of the direct and indirect effects on the services received by our people are considered in your difficult deliberations of unpleasant alternatives.

Ms. **Mikulski**. One final point about Mercy Southern. I use Mercy Southern. There is often a myth in these programs that they are entirely federally funded and entirely utilized by the poor.

I happen to live in a community that has been designated as an underserved area. I, therefore, turn to Mercy Southern for two reasons: It offers quality health care; and it's a one-stop shop. I'm one of the people who pay the full cost of care. If Mercy Southern closes, there will be a lot of people like myself who moved into areas in kind of urban homesteading efforts that will be lost without medical care as well as the poor—one more disincentive for us not to help Baltimore make the comeback that it has.

I just want you to focus that a lot of these services are not used solely by the poor, nor are they funded solely by the poor.

Chairman **Rostenkowski**. Thank you very much.

Mr. **Trump**. Thank you, Mr. Chairman.

Chairman **Rostenkowski**. Dr. Armbruster, Mr. Cooper, and Mr. Manekin?

Welcome to the committee, gentlemen. The committee is looking forward to your testimony. If you will render your testimony in the order in which I called you—Dr. Armbruster, if you would begin.

STATEMENT OF DR. TIMOTHY ARMBRUSTER, EXECUTIVE DIRECTOR, MORRIS GOLDSEKER FOUNDATION OF MARYLAND, INC.

Dr. **Armbruster**. Thank you, Mr. Chairman. In the interest of time, I think each committee member has a copy of my prepared statement, and I daresay you'll forgive me if you get a slightly abbreviated version of that.

That Baltimore has been as successful as it has is largely the result of a confluence of two forces, those are the mayor's extraordinary leadership and vision, and the financial resources of the Federal Government. Failing that last element, that second element in the partnership, I seriously doubt, as the Mayor suggested, that you would be in Baltimore today, or that we would see Baltimore being extolled by the national media as a symbol of urban rebirth.

It's for that reason that the withdrawal of the Federal presence so imperils what the people here have been working so hard for so long to build.

It's not that the private sector has been unresponsive. You've heard a number of times today about local corporate involvement in the community. You're about to hear more. It is impressive. It will doubtlessly become more so. But Baltimore's corporate community is not very large and its $500,000, or additional million dollars or whatever, is not about to begin to address seriously the impact of present Federal budgetary policy.

I was invited here today to talk a little bit about another private sector alternative to public funding. People here are getting pretty tired of hearing from me that the charitable foundations are even less able to offset the impact of the budget cuts than are corporations.

My foundation is a case in point. The Goldseker Foundation has assets of about $20 million and, sadly, is about the largest foundation, not just in Baltimore, but in the State of Maryland.

Now I think it's fair to say that we do make some difference, however modest, in the life of the community; and we try to stretch our resources, try to leverage them, try to be creative in the ways in which we apply them. Recognizing the distinct possibility that some others may be more imaginative than we are, we nonetheless think that we're doing about as much as one can reasonably expect.

I won't burden you at this time by describing some of the grants that we have made recently, except to say that each one in one way or another tries to help local nonprofit organizations address the necessity, not just of managing resources more effectively, but managing fewer resources more effectively and ideally, in ways which generate a larger portion of their annual revenues, making them less dependent, we hope, upon subsidy of one kind or another.

All of these grants make sense, we think, but taken together, represent expenditures of less than $162,000. Further, I estimate that the 30 largest foundations housed in Baltimore contribute only about $6½ million to local nonprofit organizations.

Our collective resources, when measured against an annual operating budget for the city of Baltimore in excess of $1½ billion, in the face of the $80 million in direct cuts that the mayor alluded to, represent a marginal impact, at best. Our collective ability to offset declining Federal expenditures in any meaningful way is insignificant.

In the context of today's discussion the point is fairly obvious: Baltimore has been successful fundamentally because of a coming together of local initiative and Federal dollars. The leadership is still here; the commitment is still here. But if we hope to sustain and expand the new Baltimore that we read about, there is simply not a realistic alternative to partnership with the Federal Government. Change comes in small increments, as you know, even in the best of times and diminished resources only make the task that much more difficult for those of us who are here.

Thank you for having me with you today.

[The prepared statement follows:]

STATEMENT OF DR. TIMOTHY D. ARMBRUSTER, EXECUTIVE DIRECTOR, MORRIS GOLDSEKER FOUNDATION OF MARYLAND, INC.

Mr. Chairman, and members of the committee. I am pleased to have been invited to meet with you today. Among other reasons, it provides an opportunity to extend my gratitude to three of your members, Mr. Brodhead, Mr. Frenzel, and especially Mr. Conable, for their consistent support of the private, nonprofit sector and of charitable foundations in particular. My colleagues across the country, I know, share my appreciation.

I have lived in Baltimore only about three years. I have been here long enough to become very fond of this city and to understand a little about how and why it works as its does. Yet, I think I can still maintain a degree of objectivity.

The most striking thing about Baltimore is that it is an anomaly. The resuscitation of a city which a decade ago was viewed by many observers of the urban scene as terminally distressed, and the progress made toward reversing that decline are remarkable in themselves. They are all the more so because they have taken place despite the national trends—social, economic, demographic—which currently obtain and which would otherwise suggest for Baltimore and cities like it a significantly less-than-rosy future.

To the extent the contrary is true, it is largely the result of two factors: The level of local leadership and the participation of the Federal Government. The extraordinary vision and commitment of the present mayor is particularly critical. But if Mayor Schaefer, his senior staff, and key private sector leaders have been the catalysts in these endeavors, it has been the financial resources of the Federal Government which have made Baltimore's story possible. Failing that element in the partnership, I seriously doubt you would see Baltimore extolled by the national news media as a symbol of urban rebirth.

That is why the withdrawal of the Federal presence so imperils what people here have worked so very hard to build. This rebirth is by no means assured. It is, in fact, very tenuous. Those of us who live and work here become understandably disturbed when a program like UDAG become endangered, when CDBG funds face cutbacks, when block grants to states replace categorical programs. It is not that the private sector has been unresponsive—quite the contrary. You have heard a number of times today about local corporate involvement in the community. It is impressive and will doubtless become more so. But Baltimore's corporate community is not large, and its contribution of an additional $500,000, or $1 million, or whatever will not begin to address seriously the impact of present Federal budgetary policy.

I was invited here today to talk about another private sector alternative to public funding. People here are getting tired of hearing from me that charitable foundations are even less able to offset the impact of Federal budget cuts than are corporations. The Goldseker Foundation is a case in point. We are relatively small, with assets of approximately $20 million. That translates into less than $1 million in annual disbursements to Baltimore area recipients. Sadly, we are one of the largest foundations, not just in Baltimore, but in Maryland.

I think it is fair to say that we do make some difference, however modest, in the life of this community. We try to stretch our resources, try to leverage them, try to be creative in their application. Recognizing the possibility that others may be more imaginative, we nonetheless think we are doing about as much as one can reasonably expect.

I would like to describe several of the grants authorized by our board at its more recent meeting. Each attempts in some way to help local nonprofit organizations address the necessity not simply of managing resources more effectively, but managing fewer resources more effectively—and ideally in ways which generate a larger portion of annual revenues, thus making them less dependent upon subsidy of one kind or another. These grants include awards:

To help a community-based development corporation create, in partnership with various private partners, increased levels of homeownership in a stable but low income black community in west Baltimore threatened by economic pressures which may displace present residents.

To help a second such corporation create employment for 25-50 delinquent youths ages 18-22 from a predominately white, blue-collar community hurt by CETA cuts.

To assist neighborhood organizations improve their financial management, planning capacity, and most especially their ability to generate income to replace anticipated losses in CDBG subsidies.

To provide technical assistance to a small, black college, in order for the institution to strengthen its financial operations, particularly in the administration of student financial aid programs whose future is uncertain.

To explore the implications for nonprofit institutions posed by current telecommunications technology, i.e., how it may be used to deliver services in a cost-efficient way and, potentially at least, produce income.

All of these, we believe, make sense, but taken together represent expenditures of $161,500. I estimate that the thirty largest foundations housed in Baltimore contribute about $6.5 million annually to local organizations. Our collective resources, when measured against an annual operating budget for the city of Baltimore in excess of $1.5 billion, represent a marginal impact at best. Our collective ability to offset declining Federal expenditures in any meaningful way is insignificant.

In the contest of today's discussion, the point is obvious. Baltimore has been successful fundamentally because of a coming together of local initiative and Federal dollars. The leadership—and the commitment—are still here. But if we hope to sustain and expand the "new" Baltimore, there is not a realistic alternative to partnership with the Federal Government. Change comes in small increments in the best of times. Diminished resources only make the task that much more difficult.

Thank you again for inviting me.

Chairman ROSTENKOWSKI. Mr. Cooper?

STATEMENT OF ALAN S. COOPER, EXECUTIVE DIRECTOR, UNITED WAY OF CENTRAL MARYLAND

Mr. **Cooper**. I'm Alan Cooper, the director of the United Way here in central Maryland, and like Tim, I like not to talk from the paper. The paper presents our overall, broad philosophical statement regarding the questions you've raised. I'll just say, in summary, that we support the testimony given and that we agree on the direction, but that the actions have come too quick and too deep and as a consequence, many of the efforts being made today are experimental, that we are concerned about the future.

The United Way is the largest single voluntary effort in this community. Over 135,000 people participate in it. We fund 300 services and provide services to 400,000 families. We, you might say, are your first test case as to the reaction of the voluntary sector to the direction being taken by the Federal Government.

It's almost like a double whammy this year because you've heard about the increased needs that we have here. And on the other hand, we rely on the economy, employed persons and corporate income to provide the resources for the voluntary sector.

We just had the most successful campaign in our history. As Don Hutchinson said, we raised over a 10-percent increase, $2 million. However, our agencies, just to provide the same service as a year ago, needed $5 million.

So even with the incremental growth, we are not going to be able to even meet our own needs, let alone help participate in overcoming the problems being created by the change in Federal policy.

And the effort cannot be downplayed. You've also heard about the economy here. We ran this campaign with massive layoffs in our three major steel mills, with our automotive company being a third of what it was, with GE furloughing its home appliance division. In virtually every single organization we visited this year, employment was down. And yet, we did receive a significant increase from that group.

Also, we had our best year in corporate growth at a time when corporate profits are down in this community, which shows that the commitment is there, but the economic ability must also be a part of the equation.

We're not just concerned about what's going to come up this year, but we're concerned about the future in the voluntary sector. There are new tax laws and we don't know how they're going to impact us and we're only going to find out, as we do one year at a time.

The Congress has helped us in terms of passing the new Charitable Contributions bill. But as all of you know, it's going to take 5 years for the phase-in of that program before I believe that we will see any impact in the voluntary sector.

On the other hand, with the new estate tax laws and with the reduction of the rates that people will be paying on personal income tax, we are concerned that since the cost of giving to individuals will be higher, we do not know whether this will compensate for the fact that they will have more disposable income.

In addition, the cuts in Federal programs do not only affect human services, but affect the health systems, art, culture and education. We look forward to new competition. All organizations in the private sector, regardless of which element they represent, are going to have to start producing money from the voluntary sector. We will be seeing competition that we have not had in the past.

The impact of all of those remains to be seen. But right now, I don't think that we can offer you a great deal of encouragement that the voluntary system is going to be able to pick up what our community is not going to have in the way of Federal resources, at least over the next few years. Thank you.

[The prepared statement follows:]

STATEMENT OF ALAN S. COOPER, EXECUTIVE DIRECTOR, UNITED WAY OF CENTRAL MARYLAND, INC.

The new directions being taken at the Federal level in its budget and its tax policies have created strong feelings both in support and in opposition. There does seem to be, however, a general consensus on the goals of economic recovery with a reduction in inflation and an increase in employment and productivity. Most people it seems also look forward to a reduction in the size of the Federal Government and support the move to more local decisionmaking.

However, even in agreeing with the direction, those of us who are responsible for seeing that the needs of our citizens are met are seriously concerned with the time lag between the implementation of these Federal policy changes and when we can realistically find alternative solutions. We are, quite frankly, not prepared today to significantly help the thousands of Central Marylanders who are losing benefits and services. In addition, while there is every expectation that economic recovery will expand employment, this takes time. Currently, we face very high levels of joblessness and low corporate profitability. This creates an immediate imbalance between needs and resources. Unemployment, inflation, and Federal cutbacks have swelled the numbers of our citizens who are in the need of basic human services; while, at the same time, this economic situation has dwindled the number of potential contributors and their ability to support the voluntary system.

What can those of us outside of government do? There are a myriad of helping resources from the informal to the formal. Included are the natural support of relatives, friends, neighbors and churches. Also, organized groups such as PTA's and self-help groups, like Alcoholics Anonymous; and service agencies from Meals on Wheels to Girl Scouts to Cancer Society to Catholic and Jewish Charities to family service agencies. In this community, the United Way supports 100 such service organizations.

Those of us actively involved in this non-profit voluntary sector believe we can, and must, do more and do better. We can raise more money, utilize more volunteers, operate more efficiently, coordinate better with government, and exercise more creative leadership in addressing social problems. However, policy makers should realize that our role has its limitations. For one, this voluntary sector cannot assume responsibility for the ongoing cost of feeding, clothing, housing, and providing medical care for the needy poor and elderly. While there is a consenses that this is a government responsibility, we now find that, suddenly, 36,000 Marylanders will lose welfare benefits.

We can and will be responsive. In fact, this year, we plan to significantly expand our support for programs providing emergency assistance to destitute persons. Yet, our funds will not match, in this area or others, the extent of previous government effort.

Our first conclusion is that the Federal cuts already taken and proposed are too deep. The private sector however broadly defined cannot fill the gap. Additionally, for us and government to begin to do things differently, requires more lead time. We need to plan together within the State and the City in ways we have not done in the past—this takes time. Thus, my second conclusion is that the cuts are too quick.

Finally, I would emphasize that different jurisdictions must be treated differently. Baltimore has done as much—or more—for itself than any other city in America. Yet, we have a large poverty population, and our socio-economic problems run deep.

We believe Federal money should flow to where the need is greatest. For example, we need jobs, job development, and job training for citizens able to work, yet ill equipped for the available high level service jobs. We need incentives for private industry in Baltimore to expand and hire.

We must raise more funds from the private sector. We have an excellent potential in this regard. Individuals contribute about one per cent of their personnal income to all non-profit organizations. Corporations are currently contributing about one per cent of pre-tax profits, but they are allowed now to contribute up to ten per cent of such profits as a deductible expense on their tax returns. There is clearly a great potential for the support of needed services in the voluntary system from the community. The United Way of Central Maryland estimates that the annual campaign raises only about 30 percent of what could be contributed.

In spite of this potential, fund raising within the private sector faces many obstacles. The Federal cutbacks that affect human services are also affecting arts, culture and education, resulting in a greater need for private funding for these important pursuits. The competition for dollars among the various private sector organizations, therefore, will be greater than we have ever known.

Congress has recently aided the voluntary sector by approving phased-in charitable contributions legislation. On the other hand, the reduction of tax rates, particularly at higher income levels, can lead to a disincentive for increased contributions. A recent study commissioned by the Independent Sector has concluded that the new tax policy will cost the voluntary sector more than $18 billion over the next five years. In addition to raising more money for needed human services, we must be active on other fronts in order achieve a more effective service delivery system. A critical self-analysis involving more effective methods in the operation of human service programs is imperative. We must find ways of providing more service with less money to fill the void. The voluntary agencies require more effective management systems. The community, the corporate structure and educational facilities must lend their expertise so that voluntary organizations can concentrate their maximum thrust on services to people.

Those persons most vulnerable to the administration's economy measures will be the working poor, the handicapped and the urban dweller. The private sector and the voluntary agencies must seek new avenues and new approaches to address these pressing human needs resulting from the Federal retrenchment. Improved coordination and cooperation among all human service agencies is paramount if we are to successfully meet the serious challenges that lie ahead in our community.

This is not the first time we have had to accommodate dramatic change. The voluntary sector has an enviable record of responding effectively to crises. We must work together. All the elements of our community—business, government and organized labor, can maintain and improve the operation of our human service network. The key to how well we do this will depend on our ability and willingness to plan, coordinate, and work together.

Mr. FOWLER. Mr. Chairman, I have just one quick question. Is the 5 percent for corporations, that 5 percent, voluntary 5 percent for corporations of which the mayor spoke, is that over and above the United Way?

Mr. COOPER. No. That 5 percent—Mr. Manekin, I'm sure, will speak to it—is the request of corporations for their total philanthropy——

Mr. FOWLER. Including the United Way.

Mr. COOPER [continuing]. Of which the United Way would be a competitive asker of that piece.

Mr. PICKLE. Thank you, Mr. Cooper. Mr. Manekin?

STATEMENT OF BERNARD MANEKIN, CHAIRMAN, GREATER BALTIMORE COMMITTEE

Mr. MANEKIN. Thank you very much. I am Bernard Manekin, chairman of the Greater Baltimore Committee. I, too, have submitted previously a statement to all of you and will try to be brief and capsulate some of the remarks that appear in that statement, following Dr. Armbruster and Mr. Cooper.

I think one of the great successes and the basic reason for the success story of this community in the past number of years has been the extremely strong partnership that has existed between the Government and the private sector. And so when Mayor

Schaefer came to the private sector, to the business community, asking for help in anticipation of these huge Government cuts in funding, we did get together, as he indicated in his statement, and responded as best we could in the manner in which we did by agreeing to underwrite and raise the sum of some $500,000.

This money has been allocated, or will be allocated, to the programs, the type of which he explained to you, such as the winterization program sponsored by the Baltimore Gas & Electric Co. The program that takes place in the schools, namely, the educational program involving fire safety, fire tips and practices, is being underwritten by the United States Fidelity and Guaranty. The program that the Noxell Corp. is sponsoring is called Emergency Winterwear. This program provides coats, parkas, sleeping bags, and other winter clothing, protection mainly for the elderly and handicapped residents of our city. Additional programs have other corporate sponsors.

But as has been stated here, both by you gentlemen and by others, it would be unrealistic and, indeed, foolhardy, to expect the private sector to pick up the entire slack that has been caused by the severe defunding, if you will, of programs that this community has enjoyed and experienced over the past number of years, coming, as it did, so quickly and so deeply.

The business sector succeeded not only in its commitment to the half million dollars, but in retaining some of the programs and insuring the retention of some jobs, although not nearly as many as were eliminated through the curtailment of the CETA program.

In addition to that, I think there has developed an awareness or an education on the part of business that, indeed, it must address itself more to the community and community programing and social-economic aspects thereof, rather than isolate itself and concern itself solely with the bottom line profits picture.

We also feel that the response of the business community and the partnership with Government has sent the message out to the community at large—terribly important at this time—that industry and business does care, it does feel. And while it might not be able to do everything, it nevertheless, in what it has done, has, we think, sent a very significant message to this community.

In addition to the blue chip-in program, as you all have heard, we picked up as a result of a meeting held here and addressed by Mr. Dayton of the Dayton Hudson Co. of Minneapolis, the formation of the 5 Percent Club. That club is actively being pursued at this time. This is a program whereby corporations are being made aware of the fact that at that time, 5 percent of corporate earnings could be given to philanthropy under the then existing tax law. That now has been increased as a result of the Economic Tax Recovery Act of 1981, to 10 percent.

In 1980, corporate contributions to philanthropy represented some $2.55 billion. This, however, represented less than 1 percent of the total corporate earnings as reported. If we can, through efforts in this community and other communities throughout the country, develop business' awareness and corporate awareness to increase even up to the 5 percent through a gradual annual increment, a substantial sum of money could conceivably be made available for philanthropy.

But while we started this program in April, and while we have been working on the blue chip-in program over the summer and early fall, we cannot be unmindful of another major factor that has intervened; namely, the recession in which we now presently find ourselves. We have launched the 5 Percent Club. We know that it can be increased to 10 percent. But this percentage relates to earnings. If corporate earnings should decline or disappear, I believe contributions to philanthropy will suffer.

We're greatly concerned about the painful jolts caused by the unemployment that has come to our community. And we're distressed that the economic foundations of our diversified industrial community have been shaken. We're especially distressed at the unacceptable levels of unemployment in our black community—recognizing that over 50 percent of our community is black.

In cities such as Baltimore, a stable, healthy, democratic society depends and rests heavily upon the foundation of economic vitality. Widespread unemployment for extended periods of time will create extraordinary strains on the basic fabric of our community.

We're working hard for long-range solutions. We've done and will continue to do what we can to meet short-term needs. But as businessmen, we must express our concern, as we do to ourselves and to the community, about this very serious, stubborn economic problem that I've alluded to. Business lacks the material means, or could well lack the material means, to provide anything more than Band-Aid assistance.

In conclusion, permit me to say that the business sector of Baltimore is ready and willing to contribute of its resources to assist in maintaining many of the socioeconomic programs that have made our city a great place to live and to work. But the degree and the ability of business to involve itself financially will depend in large measure on the vigor and the vitality of our economy.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF BERNARD MANEKIN, CHAIRMAN, GREATER BALTIMORE COMMITTEE

Baltimore's business community heartily applauded the decision by the administration and the Congress to reduce substantially Federal expenditures, to work toward the elimination of the budget deficit by 1984 and, more generally, to "get government off the backs of the people."

At the same time, many of us recognized that the reduced Federal spending would require cutbacks or even elimination of a number of very worthwhile programs that have helped revitalize our city. The private sector responded promptly and, we believe, rather creatively.

When the cutbacks were first announced, Mayor William Donald Schaefer appealed to a group of corporate executives here in Baltimore to take over many of the programs formerly funded by government. We evaluated these varied programs, and the Mayor and his staff worked with us to set priorities. Our committee agreed to solicit the business community and its major corporations to raise approximately $500,000.

The program we developed is known as Blue Chip-In.

We fully expect to reach this goal of $500,000.

The committee recognizes that the sum to be raised is small when compared to the total needs of the community and is modest when compared to the funding the City is losing. But, the effort by the business community has served several worthwhile purposes.

First, the money enables the City to create jobs to replace some of those lost because of the curtailment of the CITA program, which has enjoyed considerable success in this area. I call the attention of the committee, for instance, to a recently-announced weatherization program. Under the auspices of the Baltimore Gas and Electric Company, homeowners in a city neighborhood will have their houses better protected from the elements by workers who otherwise might well be unemployed.

Second, the private sector's subsidy enables the city to retain a number of programs that most likely would have disappeared for lack of funding. For example, United States Fidelity and Guarantee picked up a Fire Safety Awareness program which will enable the city to continue a program which instructs the public school students in fire safety tips and practices; and the Noxell Corporation has chipped in to salvage a program called "Emergency Winter Wear", which provides coats, parkas, sleeping bags and other winter clothing protection mainly for the elderly and handicapped residents of our city.

This Blue Chip-In program of Baltimore's business community has additional positive effects that will pay special dividends for the business community and the community where we live and work.

We in industry now have a greater awareness of our role as responsible corporate citizens committed to the social and economic well-being of our community.

Further, a message has gone forth to the community at large that business is not solely interested in profits but recognizes its role as a responsible corporate citizen.

We in the private sector have not limited our response to Blue Chip-In. Even before the formation of this program and before the first budget cuts were finalized, we formed a 5 Percent Club here in Baltimore. This organization has committed itself to enlisting corporations which will gradually incease their corporate philanthropy to 5 percent of annual earnings. Our club and similar ones elsewhere in the country spotlight the business sector's acknowledgement of its role in charitable contributions. Now, as you are aware, the economic Tax Recovery Act of 1981 has increased the allowable deduction for philanthropy from 5 percent to 10 percent corporate earnings.

I have described briefly two positive indications that the business sector of Baltimore has a genuine concern for the socio-economic health of our community. But I remind you members of the House Ways and Means Committee—and indeed all of the public sector—that these two initiatives occurred in the first six months of this year.

Today business is confused and frustrated.

Economic events of the past several months have caused us mounting concern. Need I remind you that we now find ourselves in a recession. We cannot with any degree of certainty define its length or depth. The goal of a balanced budget by 1984 seems but a tarnished dream.

Yes, we have launched a 5 percent Club in the area. Yes, we are mindful that we can increase that 5 percent to 10 percent. But I must remind everyone that this giving represents a percentage of real earnings. If corporate earnings decline or disappear, philanthropic contributions will decline and important, worthwhile social programs will suffer immeasurably.

As businessmen and citizens of our community, we are greatly concerned with the painful jolts of unemployment that have shocked the economic foundations of the diversified industrial community of Baltimore.

We are especially distressed at the unacceptable levels of unemployment in our Black community, which constitutes over 50 percent of the total population in the city.

In cities such as Baltimore, the very foundation of a stable, healthy democratic society rests heavily upon a foundation of economic vitality. Widespread unemployment for extended periods of time will create extraordinary strains on the basic fabric of our community.

We are working—working hard—on long range solutions. We have done and will continue to do what we can to meet the short-term needs. But as businessmen, we must express our concern about the serious, stubborn economic problems I have outlined. Because of them we lack the material means to provide anything other than Band-aid assistance.

This is our dilemma. We pray for solutions.

Chairman ROSTENKOWSKI. Any questions? Mr. Pease?

Mr. PEASE. Mr. Chairman, first of all, I would like to thank our witnesses and to compliment the business community of Baltimore for responding in the way that you have to this blue chip-in program. I think that that's very, very exemplary.

I'm curious about one thing. Last spring, the business community from my area came to me and with one voice urged passage of the

President's economic recovery program without change. I kept asking about this and asking about that. It was almost as if there had been some sort of an agreement that everyone was going to stand firm for the program exactly as it was.

In your experience, were the businessmen of Baltimore aware last spring of the kinds of things that are being brought out at this hearing today and the impact that they have on Baltimore?

Mr. MANEKIN. I think it's fair to say that the overwhelming number of businessmen voted for this present administration, endorsed completely most of the budget cuts, embraced enthusiastically the concept of a balanced budget in 1984, and were delighted to know that the administration was going to take Government off the backs of the people.

I don't think, in fairness, everybody who endorsed that and applauded that concept stopped to think through, really, the impact of what would happen to the social programs, what would happen to the entitlement programs, nor, of course, at that time did we think we were going into a recession.

You see, the theory, the scenario that was set forth was one that said that everything was going to be——

Mr. RUSSO. Rosy.

Mr. MANEKIN. Rosy, or words to that effect. And that's why industry felt that it would be very happy to give 5 percent of its earnings because it anticipated higher earnings. And maybe that will come about. At this moment, it is not there and we have grave concern about what might develop in this community, and in urban cities throughout the country.

Mr. PEASE. Thank you.

Mr. JACOBS. Mr. Chairman, I just have one question. You said, sir, that you thought the overwhelming majority of business people anticipated this administration, would get the Government off people's backs; but they did not anticipate, maybe, some of the side effects.

Do you really think that very many hard-headed business people anticipated the level of luxury that we have witnessed at the White House since this administration has come in? Isn't there a contrast there that nudges you just slightly?

Mr. MANEKIN. Well, I can't speak to that because I might be out of the mainstream of my business community.

Mr. JACOBS. Well, if you don't have $200,000 worth of dishes, you're way out of the mainstream.

Mr. MANEKIN. Well, that I am.

Mr. PICKLE. Mr. Chairman?

Chairman ROSTENKOWSKI. Mr. Pickle?

Mr. PICKLE. I think the tenor of our Congress in many respects today has been that the Federal Government is harsh and is unmindful of the needs of the local community. Now the Federal Government does have problems. We've got a deficit this year of $60 to $100 billion and that may continue for the next 2 or 3 years. We're trying to find out this morning how these proposed cuts are affecting your city. I must say that the Governor and the mayor and your county executive and all those who have testified have been very persuasive. I think you've given us a lot of very valuable information.

The fact of the matter is, though, somehow we've got to get our own budget under control, the Federal budget. And we cannot let it go completely out of bounds in order to help the State of Maryland, or Baltimore, per se. We're all in this together.

And so I leave a word of some caution to everyone that we must somehow handle the Federal budget in a better manner. And I don't know what the answer is. We're engaged in a national debate at this time to try and determine what is our proper course. I don't think it's enough for us to say, don't cut me, when we've got a national problem. I think we all must keep that in mind, whether we live in Maryland, whether we live in Texas, or California. And I think that that ought to be made a part of the record.

Mr. MANEKIN. Well, I couldn't agree with you more, sir. But I think that unless more and more attention is devoted to the economy and the processes of the economy, and I'm not ignoring the political aspects of responsible budgeting, I think this is where you find the confrontation, if, indeed, there is, between what people refer to as the Wall Streeters and the Federal Government.

Wall Street is looking at the economy. And right now, this presents to me as potentially a dangerous situation as does the political developments in the way of the budget. And I say that because of the numbers of unemployed, the growing numbers of unemployed, what unemployment does to people, what the lack of money does to people, what the absence of food does to people, the tensions that are created, and all of the potential results that could develop from that.

This is why I think we find ourselves in the position that we are in today. I think that most businessmen, most level-headed men, or most responsible people, felt that there was a need to develop fiscal disciplines in our budgeting process. But some people will question, at least I will, the tax cuts, the depth of the tax cuts.

You take in Dr. Armbruster's case, in foundations. The Federal Government has made it much more difficult under this Economic Recovery Act to increase foundations, to add to the numbers already, by exempting, giving the tax breaks to the larger estates, the over $600,000, and reducing it to a point where, while some people might applaud that this might be a wonderful way to get money into foundations because of the heavy tax rates before in estate planning, now the tax has been substantially reduced. This creates another problem with Dr. Armbruster might address.

Mr. PICKLE. I would agree generally with what you've said. I only point out that our Nation is facing some crucial decisions in the immediate months or the next year or two. As a matter of policy, which way do we go?

Obviously, we cannot cut out a lot of these programs that are good for us. And obviously, we must also get our own house in order. So I think that we must all take a broad view of which way we're going.

Mr. MANEKIN. I quite agree.

Dr. ARMBRUSTER. Could I just say something? Could I say something? Excuse me, Mr. Chairman. I couldn't agree more with the Congressman when he suggests that, yes, we are all in this together. I mean, the fundamental underlying message of all this today is that Baltimore's problems are the Nation's problems. I think that most of us here today are a little distressed because Federal budgetary policy is not treating us as though we're all in this together.

That, I think, is the basis of a lot of our concern.

Mr. **Pickle**. Are you saying that you think that the city of Baltimore, Md. is not being treated fairly in the union?

Dr. **Armbruster**. I think that the older cities, the places where the poor and the dependent are congregated, for whatever reasons, the passing of technology to the Sun Belt, whatever——

Mr. **Pickle**. You're saying that the help we give, we ought to consider it in that form, primarily to the area of need. That's what you're saying.

Dr. **Armbruster**. Yes, a somewhat more equitable arrangement of Federal priorities. I have no quarrel with your general premise. But it's in the specific application that people like Mr. Stockman and I and others part ways.

Chairman **Rostenkowski**. Mr. Anthony?

Mr. **Anthony**. Thank you, Mr. Chairman. To any one of the three panelists or all three—you say that business is frustrated and confused. We know that some in the administration are saying that the recession is caused by the Congress failure to implement the personal income tax cut as of January 1, 1981, postponing it until October 1, 1981.

And I just wonder, as business people, if you feel that the Congress was responsible for this recession, based on the fact that we did not implement a personal income tax cut on January 1, 1981?

Dr. **Armbruster**. I'm not a businessman. I pass.

Mr. **Anthony**. All right. If business is confused and if business is frustrated, we've already heard from the county. We've already heard from the city. We've heard from other representatives of various institutions that are showing the same confusion, the same frustration. Knowing that many of us share the goals, and do still share the goals and the principles of the administration, at what time will the business community be willing to become politically active to say to this administration, let's fine-tune your program, let's make an admission that it did not precipitate the faith in the economy that we had based our belief upon, and at what stage will the business community come forward in great numbers and outpouring of support, of letters, telephone calls, telegrams, visits to the Hill and testify before Members of Congress and various committees and say, let's take a look at it and let's try to redefine it and refine the program?

Are you willing to do that, because it's really what you're telling us to do that needs to be done?

Mr. **Manekin**. Well, sir, I can't tell you at what point in time this will happen.

Mr. **Anthony**. Are we getting close to it?

Mr. **Manekin**. What's that?

Mr. **Anthony**. Are we getting close to it?

Mr. **Manekin**. Well, there's an election coming up in 1982. I think that that might be an excellent opportunity for businessmen to express their reaction to what's taking place.

Mr. **Anthony**. There are going to be a lot of people who are going to be voting besides businessmen.

Mr. **Manekin**. Well——

Mr. **Anthony**. And there's going to be a lot of frustration and confusion by other people who are not business people, by the business people who, in my State, would like to employ 85,000 people, but can't afford to do it.

I guess based on your conversation with Mr. Pickle that it kind of hit a chord that's been coming home to me as I've traveled back to Arkansas, and that is the willingness of the business community to get involved on trying to redefine and address some of the problems that we did at the very beginning.

Mr. **Manekin**. We really should be doing that. But at what point they will be doing that, I don't know. But they certainly should be.

Chairman **Rostenkowski**. The time of the gentleman has expired. Thank you very much, gentlemen.

Mr. Stettler, Mr. Hettleman, and Mr. Buck.

The Chair would like to point out that the last panel has agreed, because of our time schedule, to submit their testimony, which will be incorporated into the record.

With that, Mr. Stettler, if you would begin your testimony, please?

STATEMENT OF H. LOUIS STETTLER III, SECRETARY, MARYLAND DEPARTMENT OF BUDGET AND FISCAL PLANNING

Mr. **Stettler**. My assignment is the revenue side. Over the last couple of decades, the State has taken a very enlightened position relative to how it raises revenue, at least we thought we did. To simplify taxpayer problems and tax administration, we moved toward Federal definitions and bases for our income taxes.

We have moved more heavily toward income and sales taxation, so we have a very high proportion of our total budget based on those two taxes.

Second, we've taken steps to mandate income taxation by our local governments—our counties—and to share our income, individual and corporate, with almost all of our subdivisions, so that we would reduce the burden of the property tax.

Hence, when we get a major Federal tax reduction, this impact is distributed throughout local government and, of course, as County Executive Hutchinson said, their reaction is that it's very difficult for them to raise taxes, particularly the one tax that's left to them—the property tax.

In total, the impact of the Economic Recovery Act of 1981 is expected to be some $46 million statewide in 1982 and 1983. Approximately $27 million of that will be in the State general fund and $9 million will be borne by our financially strapped Transportation Trust Fund, and $10 million will be borne by local governments, either directly or through shared taxes with the State.

This amount may seem small relative to a State budget of some $5 billion and a general fund budget of some $2.9 billion. But the number cannot be taken in isolation. As the Governor has said earlier today, the State budget this year and next year will be making up, or has had to absorb some $45 million annually in general revenue sharing for which the State participation was repealed last year.

Second, of course, we have the very large budget reductions, some $50 million of already appropriated funds in our budget for 1982, and perhaps twice that amount next year, and that is if we are fortunate, and I use that word with trepidation, fortunate enough to see appropriations at reconciliation bill level. I doubt if that will occur.

Third, we're talking here in terms of the State general fund tax loss of about $27 million. That amount, small in Federal terms, is greater than our total expenditures in our community programs in mental health or mental retardation. It's larger than any of the State costs of running our colleges, except for the professional schools of the University of Maryland here in Baltimore and the College Park campus. It's greater than the total cost of our whole probation system. It represents a very sizable part of the money in the budget that the Governor has some discretion over in making up his budget.

Fourth, the options for the State to recover the revenue by reimposing State taxes in lieu of the Federal are somewhat limited. Not only do you have the policy issues—do you want the States to remove the incentives that the Federal Government is providing for economic development? You also have the issues of public acceptance, as County Executive Hutchinson said.

Fifth, and particularly in the State of Maryland this year, we are all facing very serious problems in transportation funding where the traditional requirement is for State and local governments to raise funds; we will have to raise taxes in that area this year.

I would make a final point that all of this would be somewhat ameliorated if the economy were more buoyant. I know you, in doing your own budget, are faced with the fact that with a nonbuoyant economy, your revenues are lagging and second, some of your expenses, particularly interest, are rising very rapidly.

I might add that we have just sold bonds last October. We had to pay 11.299 percent, which is a tax-free rate. It is the highest that we have ever paid. It is the first time that the State of Maryland since at least the 1830's has had to pay a rate in which more interest is paid on the bonds before they're retired than the principle amount of the bonds.

If the recovery were to come and the economy would be buoyant, it would be more easy to bear these. We do not see that.

[The prepared statement follows:]

STATEMENT OF H. LOUIS STETTLER III, SECRETARY, MARYLAND DEPARTMENT OF BUDGET AND FISCAL PLANNING

The Economic Recovery Act of 1981 will lead directly to reduced own-source tax receipts by Maryland State government and each of its principal subdivisions. The specific reductions may appear in isolation to be initially somewhat moderate; however, they will not occur in isolation. They are scheduled to take effect in the same fiscal year in which Maryland State and local government budgets will be experiencing significantly lower Federal grant receipts.

At the Federal level the fiscal impact of the Economic Recovery Act of 1981 is significantly greater than that of the Omnibus Reconciliation Act of 1981 and subsequent budget actions. At the State level the immediate and sharp reductions in State receipts result from the federal spending reductions. For the magnitude of its reduction in Federal taxes, the Economic Recovery Act of 1981 is expected to have proportionally smaller direct effect of Maryland's income tax receipts. The order of magnitude of this impact is $40 million over fiscal years 1982 and 1983; the 1982

General Fund loss is three quarters of one percent of the State's own source revenue. The explanation, of course, is that the cornerstone of this so-called "largest tax reduction in history" is reduction in Federal individual income tax rates which have no direct effect.

The individual income tax changes that are relevant are those that affect the definitions of gross income and itemized deductions since Maryland's tax is based on Federal concepts and definitions. These changes, generally take effect January 1, 1982, consequently they will affect calendar year 1982 tax returns and not 1981 returns. Since these changes do not basically alter the taxation of wages and salaries, the State withholding tables will not change and the adjustments will show up when the 1982 returns are filed in the spring of 1983 or toward the end of fiscal 1983. The only impact in the current fiscal year will be some depreciation adjustments on individual returns and some reduction in estimated payments in April and June 1982 by the super sophisticated taxpayers; both should be very minor.

In 1983, the fiscal impact would be more significant. A number of provisions of the act directly affect Maryland tax liabilities. The most prominenent are the new saving incentives individuals now participating in employer pension plans will be able to establish an IRA or similar account and deduct contributions from gross income. There is a new tax exempt savings certificate and associated changes in the treatment of interest. The impact of these provisions are difficult to judge; the Federal fiscal impact estimate is that savings certificate reductions will be offset by the change in the interest and dividend exclusion. The "all savers" estimate however seems low. Overall it is estimated that the savings incentives will reduce State income tax by $7.3 million and local income by $3.6 million. The new provisions for foreign income will cost $2 million State and $1 million local. The new limited charitable deduction for non-itemizers appears not to qualify as an itemized deduction under Maryland Law and hence may not be available without further act of the General Assembly. The new earned income deduction for the two earner family, on the other hand, appears to qualify. This deduction is meant to right the so called "marriage penalty" although the Maryland tax structure has no "marriage penalty," it can be expected that this provision will reduce State receipts by $5.6 million and local receipts by $2.8 million.

On the corporate side, the new depreciation rules will affect 1981 returns and consequently fiscal 1982 as well as fiscal 1983 collections. The reductions are estimated to be approximately $10 and $15 million in 1982 and 1983 respectively. Since the State's troubled transportation fund receives 3¾ of the 7 percent tax, the reductions will be shared about equally between the General Fund and the Transportation Trust Fund. The local share of the DOT loss approximates $1.2 million in 1982 and $1.8 million in 1983. These amounts will grow significantly in later years.

In sum, assuming a somewhat worse case over the next two years, the General Fund will lose $27 million, DOT $9 million, and local governments $10 million from the tax reduction piece of the President's program.

Four observations should be made. First, the $46 million dollar loss to the State and local governments in 1982 and 1983 is in addition to the $45 million loss in each of 1982 and 1983 that the State government is bearing as a result of the 1980 repeal of State participation in General Revenue Sharing.

Second, both losses are in addition to the recent round of grant reductions authorized by the Reconciliation Act and subsequent budget actions.

Third, although some may view the losses associated with the tax law changes as minor the General Fund effect in 1982 is an amount that (i) is greater then the State's community programs in mental health or mental retardation, (ii) is greater then the State's funds in any of its public college or universities, save the University of Maryland's College Park and Baltimore City campuses, and (iii) is greater than the cost of the whole parole and probation system.

Fourth, the options for the State to recover the revenue by reimposing State tax in lieu of Federal are limited. The State chose to tie its tax base to the Federal definitions to simplify taxpayer responsibilities and tax administration. Reversing decisions on depreciation guidelines and eliminating the saving incentives would create significant compliance problems for taxpayers and provide the wrong incentives.

STATEMENT OF KALMAN R. HETTLEMAN, SECRETARY, MARYLAND DEPARTMENT OF HUMAN RESOURCES

Mr. HETTLEMAN. Mr. Chairman and members of the committee, I am the secretary of human resources in Maryland. Our department includes social services programs, income maintenance programs, including welfare, food stamps and medicaid eligibility. We have the unemployment insurance program, the jobs program, community services, energy, weatherization, and most of the programs that seem to be in such disfavor at this time with the national administration and the Congress.

I'd like to make just a couple of brief points. It is not easy to capsulize so much anguish and outrage in a very few minutes, but let me at least make the major points that I think are important.

First, we're not talking about some kind of mythical estimates in the Stockman black book or in the fictional material that was given you at the time you passed the Reconciliation Act without knowing what was in it. We have now in the State of Maryland thousands of people—and I call to your attention some of the vignettes in my prepared statement—real people, out there now who are being institutionalized because there's no longer homemaker aid; children now drifting into foster care because there is not enough staff to work with the natural parents to keep them there; a 30-percent increase in child abuse cases. We already have in calendar 1981 double the number of deaths from child abuse that we had all of last year.

You've covered somewhat today some of the working poor who are going to be cut off the rolls as a result of these policy changes. Well, they are. Through the middle of October, we have closed 3,768 cases. The average benefit per case is $133. Another 1,439 cases of the working poor have had their amounts reduced. The average benefit in those cases was $60. The great majority of those families have lost their medicaid.

We have another category of cases that perhaps has not been touched upon today, and that is those cases being cut from the rolls because there is step-parent income. With about half of our caseload converted, there are some 1,500 families with step-parents in which AFDC benefits and maybe medicaid benefits are lost. The working poor, welfare recipients, do not marry Rockefellers and Kennedys. They marry those people who are marginally working poor. And when you cut off that small amount of AFDC, you're going to do two things that run so terribly counterproductive to the rhetoric of the Reagan administration or the fundamental decency of any of us. First, you're going to cause some of these welfare mothers not to be able to marry. And second, we're going to wind up paying more money because when they don't marry, we're going to not only have to pay for the children, but pay for the mothers who go off the rolls when they remarry.

A second fundamental point is that we are not just punishing the working poor through the AFDC policy changes, but the Congress is cutting the WIN program to pieces. You're even cutting WIN at the time when Congress seems so intent on mandating work fare; you're even actually cutting out the supports and the ability to move welfare recipients off of welfare and into meaningful jobs.

There is very little in the legislation enacted by the Congress which provides any incentives or support even to move people off of welfare into productive jobs. It's not just enough that you've knocked the working poor off the rolls. It's not just enough that you've eliminated the CETA jobs. It's not just enough that you've cut substantially the WIN program. But even in moving toward work fare, there's nothing being done by the Reagan administration or by the Congress to enable us to support the transition of people from welfare into productive jobs where we all want them to be able to go.

Another point, as you are hopefully well aware, the cuts that we are talking about today are not a short-range program to cure some of the economic problems of this country. These cuts are permanent. They affect a radical shift of responsibilities from the Federal Government to State and local governments. They are truly an assault on those who are politically powerless.

Congressman Pickle questions what we need to do about the Federal budget. There's nothing even-handed in these cuts, as this committee is so well aware. I'm not saying that social security ought to be cut. I'm not saying that veterans' benefits ought to be cut. I'm not saying that defense ought to be cut. But there ought to be something even-handed in these cuts.

If you go back and look at what happened in the Reconciliation Act and you look at what's being proposed, it is those programs that serve the poorest of the poor, where there is the least political constituency that get, by far, the most uneven share of the reductions.

Go across the board in the Federal cuts if you want a short-term program that purports to be equitable and to promote a just society. We don't have that. These cuts are where the political power is the least.

There is also nothing in these cuts that in any way moves to make any of the welfare or income maintenance programs more manageable or more decent. It is still easier to get together Israel, Saudi Arabia, and maybe Egypt than it is to get the Department of Labor, Health, and Human Services, and the U.S. Department of Agriculture together to truly develop an income maintenance system that is decent and workable. And the Reconciliation Act in the Congress has not addressed itself in any way to making welfare programs simpler to administer. Many of the changes in the Reconciliation Act not only hurt the poor, but they make the administration of the program more complex and thereby continue to feed the notion—that so many people seem so interested in perpetuating—that the root of welfare "problems" lies in poor administration rather than in an indecent inadequate and unmanageable legislative structure.

I think, finally, that these Federal cuts do not just harm the working poor and those who are vulnerable in our society, but I think they do a disservice to all Americans and the quality of our life. I think we're not only devaluing the poor, but we're devaluing ourselves as a society and what we stand for.

The questions you should be asking are not whether there are going to be people starving in the streets or whether we're going to have riots, but whether we are elevating the American spirit, the dignity of our people, our moral worth, our commitment to economic and social justice? Do we have a fundamental obligation in our society to provide work for people and minimal subsistence?

The Reconciliation Act falls far short of those fundamental goals.

Mr. PICKLE. Who do you refer to as "we" have the responsibility?

Mr. HETTLEMAN. The American people speaking through the Congress. And I don't believe that the Reconciliation Act addresses it itself at all to the quality of life in our society. The Reconciliation Act addresses itself to who are the most politically disadvantaged so we can cut their benefits and cut their programs and deal with the economy on that basis.

It's not an equitable program that really addresses the whole spectrum of American values or programs.

[The prepared statement follows:]

STATEMENT OF KALMAN R. HETTLEMAN, SECRETARY, DEPARTMENT OF HUMAN RESOURCES, STATE OF MARYLAND

Mr. Chairman and Members of the Committee: I appreciate the opportunity to speak before you today on some of the effects of the Federal budget cuts on social welfare programs in Maryland. Before beginning my remarks, I would like to commend Chairman Rostenkowski and members of the Committee for holding these regional hearings. There is widespread, and I believe well founded, concern across the country that development of the budget this year has been a closed and hurried process with the vital interests of many thousands of low income people bargained away without careful public debate. The confessions of the OMB Director—made public this last week—confirm what we in public welfare administration have known from the beginning: that this budget is nothing less than a callous assault on the nation's poor. I am hopeful that this hearing will be part of a renewed effort by the Congress to provide the people of this country with a more careful, informed, and compassionate approach to setting national priorities.

I would like to provide as concisely as possible a picture of the effects of the budget cuts enacted so far on programs within the Department of Human Resources. Let me note first what those programs include. The Department of Human Resources is responsible in Maryland for a wide range of social welfare programs including income maintenance, social services, energy assistance, and child welfare, as well as employment programs including the Employment Service, CETA, UI, and WIN. Although no simple summary of the budget effects is possible, the following fundamental facts are inescapable:

1. The immediate loss of federal funds, and resulting loss of benefits and services to those in need, cut across virtually every program of the Department of Human Resources and are devastating.

Although the Committee must by now be numb to the statistics, the number of families and individuals affected by these cuts is alarming. In spite of our efforts to minimize the effects of lost federal funds on our poorest and most vulnerable citizens, it has been impossible to avoid serious harm. We estimate that the Department will lose approximately $32 million in federal funds in Federal fiscal year 1982, primarily in the Title XX and CETA programs, eliminating jobs or reducing vital services to over 15,000 Maryland families. In addition, we estimate that approximately 286,000 persons will lose AFDC and/or food stamp benefits totalling $50 million; of these approximately 56,000 persons will lose benefits altogether. Another 6,500 persons will lose Unemployment Insurance benefits totalling $10 million. The number of DHR employees will be permanently reduced by approximately 800 positions, including approximately 200 lay-offs. It must be understood that these cuts are not taken from budgets that have grown fat over the years, but from budgets already financially starved. In particular, the social service program, cut 20 percent under the Reconciliation Act, has been virtually capped since 1972.

2. This budget has radically altered the fundamental relationship between the federal government and state and local governments. Many so-called "savings" at the federal level are in fact costs being shifted to state and local governments.

The Administration's proposals have gone beyond budget cuts to achieve temporary economic policy goals. The Reagan Administration has begun the permanent transfer of fundamental responsibility for income maintenance, social services, and medical care for the poor from the federal government to states and local governments, reversing 50 years of bi-partisan presidential and congressional national policy. Since the "Great Depression" national policy has recognized that the federal government has the basic duty and the broadest, most equitable, tax base with which to equalize differences among states and regions in the ability to finance social welfare costs and benefit levels. The causes of poverty are deeply rooted in national economic policies which transcend geographic and political boundaries.

The concept of "block grants" has been packaged in such a way as to obscure the magnitude of the responsibility and financial burden being shifted to state and local governments. While the Reagan Administration speaks of forcing state "efficiencies", this ignores the fact that both the federal government and the states have been exerting major efforts in recent years toward achieving such efficiencies. What is really happening is that the federal government is trying to relieve itself of responsibility and the blame for the slashes in benefits and services which are taking place.

In the final analysis the Reagan administration has given States and local governments more and more flexibility to do less and less—and in the process has left the State of Maryland with the onus of cutting funds to the poor, elderly, minorities, handicapped, and other most vulnerable in our State and local communities.

3. Many of the policy changes in AFDC and food stamps have drastically reduced incentives and opportunities for the working poor to work.

Welfare policy for the past 15 years has been structured by the Congress to assure that in most cases families will be financially better off working than on welfare. The Reagan Administration has reversed this policy. Currently in Maryland approximately 12 percent of the recipients of AFDC have some earnings. The policy changes now being put in place such as those limiting work expenses, and substantially reducing the earnings disregard and the gross income cap on earnings, will in effect increase the "tax" on the earnings of these families often to in excess of 100 percent. It is a bitter irony that the administration has achieved a tax reduction for the Nation's wealthiest families, while at the same time increasing the tax on earnings for welfare families.

It is now not possible for most mothers on AFDC to accept a minimum wage job, and retain any AFDC or medical assistance benefits.

4. The budget conceals the shifting of costs from one program (where the savings have been counted) to another program (where offsetting costs have not been counted). The large reductions in AFDC and food stamp caseloads which we are experiencing now may be short term reductions only. As I have noted above, the incentives for welfare recipients to work have been reduced or eliminated by the changes in AFDC and food stamp policy. It is not unreasonable to expect that a substantial number of families losing assistance now will, in coming months or years, return to the rolls. Of greater concern, is the probability that large numbers of families, for whom welfare assistance is a temporary stop gap, will be encouraged to stay on the rolls for longer and longer periods. While we have projected substantial State general fund savings for this year in line with the immediate caseload reductions, I believe the State and Nation may face a long-term increase in welfare costs as a result of these changes.

The reduction in preventive social and health services will have a similar effect of increasing long-term costs for the States. In-home services to the elderly and disabled are clearly recognized as an effective means of preventing more expensive institutionalization. These services have been cut back in Maryland. Day Care is an essential service to low-income working families, and a service which effectively prevents or avoids welfare dependency. Supportive counseling and intervention services to families with children are known to prevent the tragedy and cost of child abuse and foster care. We have had to drastically cut funds for these services. In child welfare and foster care, we are anxiously awaiting the outcome of the federal appropriation process for Title IV-B and IV-E funds. As a result of the cuts in Title XX funds, we have had to reduce our foster care staffing and reduce services to children leaving foster care. Once again these cuts have affected a preventive component of our services, and we risk the long term costs of failure. Finally, cuts in Energy Assistance, and Weatherization, will increase the long term energy costs of the poor, and will shift costs to the health and welfare systems of this State.

In general, the long term prospects are for increases in welfare, health and criminal justice costs in this State and nation as a result of this abandonment of commitment to economic and social justice.

Obviously time precludes any detailed discussion of the many specific federal reductions in the Department's programs. However at the Committee's request, I would like to cite just a few profiles of actual case examples of families and individuals who are being hurt.

1. A 95 year old man has been living independently in a public housing community. Prior to Federal cuts he was dependent upon a homemaker who visited weekly to clean his apartment, do shopping, schedule meals on wheels and do laundry. He also depended on the social worker who visited him at home weekly. In addition the elderly man appeared daily at the on-site office of the social worker to get his sched-

ule for the day. He needed this "programming" since he was senile and often confused.

We can no longer provide the staff to serve him. Recently he was found wandering around a local shopping center, something he never had done before. Institutionalization may soon follow.

2. A young mother with three small children was working and receiving an AFDC grant. Her income was as follows:

	Month
AFDC grant	$270
Earnings	528
Total plus food stamps, medical assistance, day care	798

With the implementation of the Reagan cuts the woman no longer receives AFDC since her earnings are above 150 percent of the standard of need, and she has lost her food stamps and medical assistance. Her total income is $528 a month. She still receives free day care since her income is less than 40 percent of median income. Recently one of her children was sexually abused by a neighbor and needs to go to a sexual abuse clinic. However, she has no funds for transportation and therefore it is doubtful she will go. The woman is wondering if it's worth it to continue working and has considered going back on AFDC.

3. Prior to the Reagan cuts, a woman with one child was working earning $313 a month. Her grant was $177 for a total income of $490 a month. She also received Medical Assistance and Food Stamps. With the implementation of the new AFDC policies, the Department is required to add the earned income tax credit (EITC) to a person's earnings. Adding that amount, $30, gave her a gross income of $343 which was $26 over the 150 percent standard of need. Therefore she is no longer eligible for AFDC, Medical Assistance or Food Stamps.

4. A woman in her mid-fifties who was an active and vibrant member of the community had a tracheotomy and now cannot speak. The woman never learned to write and therefore cannot communicate. If there was a homemaker, she most likely could be sent home from the hospital; however, none is available so she will be placed in a nursing home.

5. A mother of three children who worked at a low income job was sustaining herself and her family. She had food stamps, medical assistance and some day care subsidy (she paid a low fee). Recently she lost her small AFDC grant plus Medical Assistance and Food Stamps. One of her children has a life threatening health problem for which an operation is necessary. Recently she informed her worker that she was considering quitting her job so she can get medical assistance again and the child can have the operation.

6. An 85 year old man had recently been released from a state mental hospital. His physical health was good but he tended to wander away from his residence, a boarding home. The most appropriate placement would have been a supervised living situation. However, because of the reductions in social services funds, none was available. The last time he wandered away he was hit by a car and is now hospitalized again.

These examples but scratch the surface. The suffering is real; the waste of human life and dignity is inescapable.

With the Reagan Administration threatening further cuts, the harm and suffering will grow. It will continue to call into question this nation's fundamental decency as a society. We urge this Committee to continue to exert leadership to see that this does not happen; that this nation in fact returns to the path and progress towards a more, not less, just society.

Chairman ROSTENKOWSKI. Mr. Buck?

STATEMENT OF CHARLES R. BUCK, JR., SECRETARY, MARYLAND DEPARTMENT OF HEALTH AND MENTAL HYGIENE

Mr. BUCK. Thank you, Mr. Chairman and members of the committee. I want to say to you that I appreciate your coming to Baltimore to see firsthand the effect of the cuts. This morning, you saw the effects on one of our private institutions and I will, of course, address the effect on the health care programs, primarily from the public sector, focusing on both block grants and medicaid.

I have to say that I find it especially ironic that the administration, which emphasizes its concern about human life in the reproductive area should turn around and slash funding for health programs which are essential for assuring the basic quality of life. I find it equally ironic that Secretary Schweiker, who had designated prevention as a major priority of his department, is doing so much to reverse the progress we have made in eradicating disease and improving the health status of our citizens.

Let me just mention briefly the impact on the block grant cuts.

In Maryland, the proposed reductions may result in a reduction of between $4.8 and $8.4 million in 1982. It means a cut in programs for high-risk pregnant mothers at a time when our infant mortality rate is the 12th worst of all the States in the Nation. It means a cut in drug abuse programs at a time when we are experiencing a real and frightening heroin epidemic. It means a cut in alcoholism programs at a time when alcoholism is recognized by this State as our top health priority. It means a cut in community programs for retarded people at a time when we are under legitimate pressures to move institutionalized people into the community.

And of course you saw this morning another cut, a potential cut at the Kennedy Institute that would also reverse that trend.

If these people and people like these are not the truly needy, I don't know who are.

To make all of this a bit more concrete, let's consider some specific programs included in the maternal and child health block grant. If the authorization level in the Reconciliation Act holds for this block grant, Maryland will lose an estimated $1.3 million in 1982 and an estimated 13,000 mothers and children will be denied needed services. If the full-year cut goes into the continuing resolution level—a loss of $2.4 million to the State—over 20,000 mothers and children will lose access to these vital services.

To be even more specific, consider one of the many programs funded through the MCH block grant—the maternal and infant care program in Baltimore, sometimes called the M. & I. program. This is aimed at finding high-risk patients early in their pregnancy and providing continuing care through birth and infancy. It is targeted primarily to the gray zone population—the near poor whose incomes disqualify them for medicaid, but do not allow them to afford adequate medical care. The M. & I. program is meant to reduce the chances of low-birth weight, complications during pregnancy, mental retardation, and illness during infancy. In the city, where teenage pregnancy is a significant, growing problem, between 40 and 50 percent of the women in this program are below the age of 20.

Because of the block grant cuts, it is estimated that between 600 and 1,000 mothers and children needing the M. & I. program will be denied services altogether. And you have more details in my testimony.

Let me turn briefly to medicaid.

The assault on the health of the population of our city and State also includes major reductions, either enacted or pending, in the medicaid program. Here in Maryland, as Congresswoman Mikulski mentioned earlier, we are justly proud of the record we have achieved in managing the medicaid program and in controlling health care costs in general. Because of our Health Services Cost Review Commission, the rate of hospital cost inflation is one of the lowest in the Nation. Over the past year, we have taken a number of steps to reduce medicaid costs, including the imposition of a 20-day limit on reimbursement for inpatient hospital care beginning last January. We have strived to contain costs while maintaining access of poor people to acceptable quality care.

As a result of the Reconciliation Act, Federal medicaid funding for Maryland will be reduced by almost $3 million in 1982, and we would have been cut even more if it were not for the forgiveness provisions relating to our Health Services Cost Review Commission and our efficient recovery efforts.

If things stay as they are, without further reductions in Federal medicaid funding, we probably will be able to manage this cut in fiscal year 1982 without denying care to current medicaid recipients or reducing the services available to them. But if further cuts are imposed, such as those recently proposed by Secretary Schweiker's entitlement task force, or the medicaid cap idea is revised, we probably will not be able to continue to provide medicaid coverage for all of the indigent Maryland residents whom we serve now.

What we need at the State level at this time is the flexibility and the freedom to manage our medicaid programs under the new provisions of the law. I would hope that our goal in curtailing medicaid costs is not exclusively a budgetary one, but also a concern about maintaining the access of poor people to needed medical care.

You should realize that medicaid in Maryland is not a very generous program. To become eligible, a family of four may not have more than $4,400 in annual income.

It is worth pointing out that the Reagan administration is operating on a double standard in its health care cost-containment efforts. For the nonpoor, cost containment means increasing competition among health care providers while not denying services. For the medicaid recipient poor, however, cost containment means reductions in funding, which will necessitate the denial of needed health care.

Bear in mind some facts about medicaid. The program covers only about half of the Nation's poor as defined by the Federal poverty ceilings—literally the truly needy. Yet, it is generally a well managed program. Medicaid has been shown to cost no more on a per capita basis than other third-party reimbursement systems. To target the toughest cost containment measures at medicaid is to single out, as Secretary Hettleman said, a program only because it is Government-financed and because its beneficiaries are relatively powerless.

By making medicaid bear the brunt of the Nation's health care cost-containment efforts, we are in clear danger of reversing the progress that we have made for the realization of a one-class system of acceptable health care for everyone.

Instead of a bright and cheerful future for health care, we face the real prospect of turning back the clock to an era when the poor were often given segregated medical care. I hope that you will keep this in mind as you continue your deliberations. Thank you.

[The prepared statement follows:]

STATEMENT OF CHARLES R. BUCK, JR., SECRETARY, DEPARTMENT OF HEALTH AND MENTAL HYGIENE, STATE OF MARYLAND

I want to commend the Committee for coming to Baltimore to get a first-hand impression of the devastating impact of recent Federal budget cuts on the people of this City and the State of Maryland. Since my special concern is obviously health care, I want to make one point at the outset: The cuts which are being made pose an immediate threat to the health of our citizens and to their access to quality care.

I find it especially ironic that an Administration which emphasizes its concern about human life in the reproductive area should turn around and slash funding for health programs which are essential for assuring the basic quality of life. I find it equally ironic that HHS Secretary Schweiker, who has designated prevention as a major priority of his Department, is doing so much to reverse the progress we have made in eradicating disease and improving the health status of our citizens.

I hope to show you that in two areas—block grants and medicaid—the cuts already enacted or contemplated will injure such highly vulnerable groups as low birthweight babies, retarded people living in the community, pregnant teenagers, alcoholics and drug addicts, handicapped children, and poor people in general.

Consider the inaccuracy of the Administration's rhetoric. The holes in the so-called "social safety net" are growing, and the "truly needy" are being hurt—make no mistake about that. The flexibility and administrative relief being extended to the States are hardly sufficient to compensate for even a small portion of the cuts. Indeed, the cuts made in Washington seem intended to shift the burden of financing health care for the disadvantaged to the States. And the States are hardly in a position to shoulder this added burden.

Consider the new block grants which have replaced many categorical health programs. Conceptually, block grants make sense. We have found the requirements in many categorical Federal programs both onerous and irrational. We would welcome relief from them.

But as you know, the cuts in block grants range from 20 to 33 percent, depending on final appropriations levels. For Maryland, this means a reduction of between $4.8 and $8.4 million in Federal fiscal year 1982. It means a cut in programs for high-risk pregnant mothers—at a time when our infant mortality rate is the 12th worst of all States in the nation. It means a cut in drug abuse programs—at a time when we are experiencing a real and frightening heroin epidemic. It means a cut in alcoholism programs—at a time when alcoholism is recognized as the top health priority in our State Health Plan. It means a cut in community programs for retarded people—at a time when we are under legitimate pressures to move institutionalized people into the community. If people like these are not the "truly needy," I don't know who are.

Please remember, too, that Federal programs in some of these areas—alcoholism, drug abuse, and 314(d) health incentive grants—were already cut in fiscal year 1981. Nor has funding for many Federal programs kept pace with the double digit inflation of the past decade, either.

The Administration excuses these cuts because the States are allegedly being given increased flexibility and relief from Federal "red tape." The implication is that this relief will compensate for the cuts and that none of the cuts will hurt people in need. Yet this is far from true.

The only administrative relief provided through the block grants is in the form of reductions in grant application and reporting requirements—hardly enough to compensate for cuts in the 20 to 33 percent range! If anything, our administrative burden has increased, as a result of new responsibilities for administering grants which had gone directly from HHS to local agencies, bypassing the State.

To make all of this a bit more concrete, let's consider some specific programs included in the Maternal and Child Health (MCH) Block Grant. The MCH block replaces the Title V programs which had previously been under your Committee's jurisdiction. If the authorization level in the Reconciliation Act holds for this block grant, Maryland will lose an estimated $1.3 million in fiscal year 1982, and an estimated 13,000 mothers and children will be denied needed services. If the full-year cut goes to the continuing resolution level—a loss of $2.4 million to the State—over 20,000 mothers and children will lose access to vital MCH services.

To be even more specific, consider one of the many programs funded through the MCH block grant, the Maternal and Infant Care Program in Baltimore, sometimes called "M and I." This program is aimed at finding high risk patients early in their pregnancy and providing continuing care through birth and infancy. It is targeted primarily to the gray zone population—the near poor whose incomes disqualify them for Medicaid but do not allow them to afford adequate medical care. The M and I program is meant to reduce the chances of low birth weight, complications during delivery, mental retardation, and illness during infancy. In the City, where teenage pregnancy is a significant, growing problem, between 40 and 50 percent of the women in this program are below age 20.

Because of the block grant cuts, it is estimated that between 600 and 1000 mothers and children needing the M and I program will be denied services altogether. For those who can still obtain access to the program, services will be curtailed to very basic obstetrical care centered around delivery. Without the ancillary services lost because of Federal budget cuts, we will not even be able to locate many high-risk mothers urgently needing this care. Further, the followup after birth which is so critical to the health of young infants will be curtailed. This means that the good achieved through the early stages of the program will be reversed for many children because of poor followup care. And we can expect an increase in the City's infant mortality rate—which is already intolerably high—and in maternal deaths. It is hard to accept so large a cut in such a crucial program.

The Maternal and Infant Care Program is only one of a number of programs funded through the Maternal and Child Health Block Grant, and only one of many programs whose future is jeopardized by cuts in the block grants or in the remaining categorical programs such as immunization, family planning, and VD control. I point out the M and I program to you as merely one concrete illustration of the real danger for Maryland's most vulnerable citizens because of reductions in the Federal health budget.

The assault on the health of the population of our City and State also includes major reductions either enacted or pending in the Medicaid program. Here in Maryland, we are justly proud of the record we have achieved in managing Medicaid and in controlling health care costs generally. Because of our Health Services Cost Review Commission, the rate of hospital cost inflation in Maryland is one of the lowest in the nation. Over the past year, we have taken a number of steps to reduce Medicaid costs, including the imposition of a twenty-day limit on reimbursement for inpatient hospital care beginning last January. We have strived to contain costs while maintaining access of poor people to acceptable quality care.

As a result of the Reconciliation Act, Federal Medicaid funding for Maryland will be reduced by almost $3 million in fiscal year 1982. We would have been cut even more, were it not for "forgiveness" provisions relating to our Health Services Cost Review Commission and our efficient recovery efforts. If things stay as they are—without further reductions in Federal Medicaid funding—we may be able to manage this cut in fiscal year 1982 without denying care to current Medicaid recipients or reducing the services available to them. But if further cuts are imposed—such as those recently proposed by Secretary Schweiker's entitlements task force—or the Medicaid cap idea is revived, we will not be able to continue to provide Medicaid coverage for indigent Maryland residents.

What we need at the State level is the time, the flexibility, and the freedom to manage our Medicaid programs under the new provisions of the law. As it is, the Reconciliation Act provides for additional cuts in fiscal year 1982. But it is hard to estimate how much the States can save as a result of provisions in the Act. In recent testimony before the House HHS Appropriations Subcommittee, Secretary Schweiker confessed an inability to predict how much the States could save from the new Medicaid provisions. If he cannot predict this, it would seem prudent to wait before imposing further arbitrary and sudden cuts at the expense of the States. I would hope that our goal in curtailing Medicaid costs is not exclusively a budgetary one, but also a concern about maintaining the access of poor people to needed medical care.

You should realize that Medicaid in Maryland is not a very generous program. To become eligible, a family of four may not have more than $4400 in annual income. As a result of budget problems several years ago, we were forced to discontinue certain optional services. Because of this, adults in the Medicaid program are not covered for dental care except in extreme emergencies. You can see that further cuts in services offered or in eligibility limits would have a disastrous impact on health care for the poorest of the poor in our State.

It is worth pointing out that the Reagan administration is operating on a double standard in its health care cost containment efforts. For the nonpoor, cost containment means increasing competition among health care providers, while not denying services. For the Medicaid-recipient poor, however, cost containment means reductions in funding, which will necessitate the denial of needed health care.

Bear in mind some facts about Medicaid. The program covers only about half the nation's poor—clearly the "truly needy." Yet it is generally a well-managed program. Medicaid has been shown to cost no more on a per capita basis than other third party reimbursement programs. To target the toughest cost containment measures at Medicaid is to single out a program only because it is government-financed and its beneficiaries are relatively powerless. By making Medicaid bear the brunt of the nation's health cost containment efforts, we are in clear danger of reversing the progress we have made toward the realization of a one-class system of acceptable health care for everyone.

Instead of a bright and cheerful future for health care, we face the real prospect of turning the clock back to an era when the poor were often given segregated medical care—if at all, when institutionalization was the alternative of first—not last—resort, and when prevention was more theory than reality. I hope that you will keep this in mind as you consider proposals for additional reductions in Federal funds for health care.

The CHAIRMAN. Thank you, Mr. Buck.

Are there any further questions?

Mr. HEFTEL. Just one, quickly, of Mr. Buck.

Chairman ROSTENKOWSKI. Mr. Heftel?

Mr. HEFTEL. Madam Mikulski referred me to you on a question I posed earlier about whether, as you've examined health care for the needy, you've reached a conclusion on whether or not we're going to have to discuss, painful or not, the whole concept of freedom of choice?

Mr. BUCK. I think we are going to have to discuss it. And I think what concerns me most is the ability of the States to handle that concept, in my view, in a responsible way. If you look at some facts such as the fact that the people who use community health centers have 50 percent of the hospitalization of people who go to outpatient clinics. People who go to doctors' offices have 30 percent of the inpatient utilization of people who go to hospital outpatient departments.

Mr. HEFTEL. Would you repeat that, please?

Mr. BUCK. People who use community health centers for their primary care have 50 percent of the hospital utilization of people who go to hospital outpatient departments for their primary care. People who go to doctors' offices have 30 percent of the inpatient utilization of people who use hospital outpatient departments.

These facts represent potential savings that are fundamental, that could come from some fundamental reform in the health care systems. These do not pertain only to medicaid. Medicaid is a much more well managed and thoroughly managed program than Blue Cross and Prudential and all the other insurance plans. And the question is, Do we make these reforms across the board or do we apply them only to the poor?

The second question, then, and that potential savings gets into the freedom of choice issue, but it is also being interpreted a different way in some States which we are not exploring in Maryland. And that is to aggregate the poor into the public hospitals, and that's a different sort of attempt, to use the freedom of choice and to distort freedom of choice to reap economies.

My concern about that is a longer term concern, and that is that public institutions are not funded as well as the private sector. We are at that point clearly, I think, establishing the precedent to move down to a two-class system of medical care.

So, again, the freedom of choice issue, I think it has to be discussed. I think there's potential savings that can be used. I think we've got a question of how we responsibly deal with that issue.

Mr. **HEFTEL**. Thank you.

Chairman **ROSTENKOWSKI**. Mr. Brodhead?

Mr. **BRODHEAD**. Very briefly, 30 seconds. Mr. Hettleman, I was impressed with your statement that some of the changes in welfare law that were made in the Reconciliation Act will complicate the administration of these laws and make it more difficult and expensive to administer welfare programs.

I wonder if you could document that in specifics and submit it to this committee. I think that that would be very helpful to us in our deliberations.

Mr. **HETTLEMAN**. I'd be glad to do that.

Mr. **BRODHEAD**. Thank you.

Chairman **ROSTENKOWSKI**. As I previously announced, the statements of the last scheduled panel will be inserted in the record.

[The statements follow:]

STATEMENT OF MARION W. PINES, DIRECTOR, MAYOR'S OFFICE OF MANPOWER RESOURCES, CITY OF BALTIMORE

I want to thank the members of the Ways and Means Committee, as well as the Maryland congressional delegation, for traveling to Baltimore to look first-hand at the impact of the Federal budget cuts on a city that has turned the corner from urban deterioration and is now on the move to urban prosperity. Baltimore is on the forefront because we have learned through experience how to use Federal, State and local initiatives to rebuild our industrial base, to expand our local service economy, and to revitalize our neighborhoods. In short, we have learned how to encourage the creation of new jobs and to prepare our residents to fill those jobs.

Mayor Schaefer has already told you about the sacrifices this city has made to absorb the Federal budget cuts. The CETA program in particular has already been slashed by 70 percent in one year, and as a result, 3,000 economically disadvantaged public service employees have lost their jobs; there will be 1,300 fewer skill training opportunities for structurally unemployed residents this year; and we have had to eliminate more than 6,500 employment and training slots for poor and unemployed youths. This comes at a time when there are 43,000 unemployed adults and 25,000 unemployed minority youths in Baltimore city. Put simply, the budget cuts have left the Nation, as well as local governments, unable to train and employ more than a fraction of our unemployed tax users. But Baltimore's CETA program will make do with what remains—we have eliminated some very fine training programs, cut back on others, and consolidated still more; to save participant wage costs which annually consume 67 percent of our program budget, we will pay a small weekly stipend to many of our trainees; to save administrative costs, we have reduced our workforce fifty percent and curtailed our outreach and placement efforts. But even these steps can hardly offset the huge loss in CETA resources. An additional 12 percent cut will decimate what remains of the CETA program—500 more adult training slots will be eliminated and another 1,500 youth opportunities will be canceled. The bottom line is, of course, fewer and fewer employment and training services for those most in need—the structurally unemployed and the economically disadvantaged.

It is a sad irony that as the real need for employment and traning programs is rising, the Federal commitment to helping those in need is disappearing. CETA is a program that works. The continuous longitudinal manpower survey, which has been tracking CETA participants for almost five years, shows significant increases in both the frequency and duration of unsubsidized employment, as well as post-CETA wage gains, for CETA trained individuals compared to a non-CETA control group. Similar studies, including the Taggart cost-benefit analyses and the recent Johns Hopkins University study, have supported this evidence.

As you search for cost savings in the budget, you must consider CETA as an investment in human capital. Studies have shown, for example, that every dollar spent by the Federal Government on on-the-job training returns $2.28 to the economy through increased productivity, higher tax revenues, and lower income maintenance expenditures. Similarly, every dollar spent on classroom training returns

$1.14 to the economy. What these numbers do not reflect, however, are the personal benefits of being employed—increased self-sufficiency and self-respect.

We have as successful CETA program in Baltimore because we have learned how to use CETA to simultaneously achieve national and local objectives. As a means of employing this Nation's and this city's unemployed tax consumers, we provide marketable skills to the structurally unemployed. Through large scale "classroom skill training", we are able to provide specific occupational skills in response to anticipated labor market demands; "on-the-job training" programs train unemployed participants in employer-specific skills "upgrade training" not only paves the way for participant career advancement, but also opens up entry-level job opportunities to which we can refer other unemployed persons; "retraining" programs train workers whose skills have been made obsolete by technological changes and whose only recourse would be unemployment compensation; lastly, we offer "employability development" aimed at easing the move into the private labor market—work experience to teach good work habits, remediation of basic math and communications skills, and job search workshops to each people how to find, get, and keep a job.

To insure cost-effective training, we have also learned to tailor our programs to real labor market needs. Our "private industry council" provides constant labor market analyses and advice in employment trends, We have created "labor market advisory councils" in each of the major occupational areas in which we train. These groups, each made up of actual employers in the field, meet regularly to discuss short and long term employment needs, and advise us accordingly. As a final means of guaranteeing cost-effective programs, we operate most training programs through "performance based" contracts. Under these arrangements, training subcontractors are paid according to actual performance; payments are made for each enrollment, for each participant still in the program at the midpoint, for each participant successfully completing the program, and lastly, for each job placement.

Another way we have learned to use employment and training programs to meet both national and local objectives is to look at CETA as a powerful economic development tool. Unfortunately, CETA is often overlooked as a means of encouraging business expansion and new job creation, but the potential is great. We finance two positions in Baltimore sepcifically aimed at easing the availability of economic development loans to new business interests—in return, many new jobs are earmarked for CETA trained individuals. CETA is involved in developing Baltimore's largest new industrial area, with a five year goal of training and employing up to 2,500 people. New and existing businesses are attracted by the availability of a trained and employable local workforce. Last year when Baltimore's "Harborplace" opened, and again this year with the new Hyatt Motel, my office set up a referral service through which CETA registrants were screened and referred to the new jobs. Because of this arrangement, 1,000 previously unemployed persons found jobs at Haborplace, and 475 more at the Hyatt. The same model was used to create a city-wide referral service for CETA-trained individuals. This service is free to all area businessmen. Last year alone, 157 trainees were placed in unsubsidized jobs through the program.

We have also used CETA income and employment generating activities to help communities establish their own locally operated businesses. With financial support and training resources provided through CETA, one Baltimore community has created an elaborate recycling operation. This organization has contracted with dozens of offices around the city to process their paper wastes weekly. By spring, the business will be completely independent of all Government support and 20 jobs will have been created for previously unemployed persons. We have used a similar design to create a small home maintenance and rehabilitation service for low-income homewoners. The project trains young adults in all phases of carpentry and home maintenance and will soon be an independent, self-sufficient private enterprise.

We have also learned that CETA can be an important tool for insuring community stability. While the economic consequences of high unemployment are well known, we often tend to overlook the personal and social costs of joblessness. Baltimore city is uniquely dependent on her individual communities, and when one in every ten adults is out of work, the strong neighborhood ties begin to break down. As a result, CETA plays a dual role by helping residents find work, and by simultaneously easing the pressures of high local unemployemnt. Our summer youth employment program and our work experience programs not only provide meaningful employment and subsistence incomes as an alternative to welfare, but also give valuable work habits and necessary work histories. Similarly, our in-school CETA youth programs encourage kids to stay in school, thereby lowering dropout rates and the associated problems of more crime and higher unemployment. Finally, we are providing some valuable services to low income communities through our training and work experience programs. Daycare for working mothers, health care for home-bound elderly persons, the weatherization of old homes, and the renovation of vacant houses provides real employment skills for CETA participants and much needed services to our communities.

So CETA can be used in a variety of ways, as a training tool, it can help put the Nation's unemployed to work and to reduce public assistance payments. As an economic development tool, CETA can help businesses expand and create new jobs. And as a community stabilization tool, CETA benefits not only the participants themselves, but the local communities and neighborhoods as well. As you can see, CETA is much more than just a means of addressing short-term unemployment.

The costs of unemployment—welfare, crime, and social unrest—affect everyone. Even as new jobs open up, the structurally unemployed will find it difficult, and in some cases impossible, to get those jobs. The need for employment and training services will go up, regardless of what happens to the CETA budget. This is why we must look at the alternatives we have to meet this need. We can turn to the private sector for help, but there are limitations on how much help we can expect. You may be familiar with Mayor Schaefer's "Blue Chip-In" project here in Baltimore. We have packaged some of our best employment and training programs and taken them to private businessmen and asked for their support. I must admit, their response has been tremendous. Our goal is to raise $500,000 and it appears that we will reach this goal. But $500,000 can hardly begin to offset the $60 million lost in the CETA program this year. It is a start, but we cannot expect the business community to pick up all the slack. Businessmen simply cannot afford to do so.

Another private sector response to high unemployment is hiring disadvantaged workers through the "targeted jobs tax credit" program, through which employers can claim up to $6,000 in tax credits on employee wages. Ten large groups are identified for the tax credit and there have been some significant employment gains for these groups. But this program too, has its limitations. First of all, only those employers with minimal skill needs can afford to hire the low-skilled target populations of the program. Those with higher skill needs must spend much more than the value of the tax credit training the workers. Secondly, the program is cumbersome. The ten separate target groups each must have distinct eligibility criteria, and employers must go through a complicated vouchering and certification process before an individual starts work. On top of that, employers must meet another set of internal revenue service requirements each year to claim the credit. So the "targeted jobs tax credit" programs is also limited in its contributions to the unemployment crisis.

An idea receiving much attention these days is the proposal to create "enterprise zones" in particularly blighted urban areas. The rationale is that employers can be induced to create new jobs and hire disadvantaged workers through a variety of tax based incentives. But this proposal is being questioned as to whether the costs of lower tax revenues from zone businesses are greater than the benefits of more jobs for the unemployed. In its present form, I must question whether, in fact, we can really expect enough new job creation to offset the costs.

So relying on the private sector to pick up the slack of employment and training cutbacks has its limitations. Private businessmen can only do so much—they simply cannot afford to step in and pick up where the Federal Government left off.

There is a balance between what the roles of the Federal Government and the private sector should be in the area of employment and training. While neither can bear the entire burden, the Federal Government must accept the initial responsibility of creating a training mechanism through which the structurally unemployed can prepare themselves for the labor market. The first step must be the establishment of a clear national employment policy—what are we attempting to accomplish? Our goal must be to help those members of the labor force who cannot succeed in the labor market without some intervention to become employable. Unless and until these individuals get a job and begin paying taxes, we can expect only more tax consumption through Federal, State, and local income maintenance programs. Next we must decide how we will help these individuals. Through a variety of employment and training strategies, such as those I have described today, we can move the unemployed into the unsubsidized job market. This requires not only adequate local flexibility to tailor services to the needs of the participants and the local labor market, but also the intelligent targeting of resources to those areas with the greatest needs. In these days of limited public expenditures, targeting funds to the geographic areas in need will insure that those indviduals in need actually receive the services.

It is only when the Federal Government demonstrates this type of commitment to helping the structurally unemployed that the private sector can afford to hire our unemployed. We have shown this to be true in Baltimore.

In closing, I would like to repeat my appreciation for your interest in Baltimore. The sacrifices the city and the CETA program have already made have trimmed our services to the bone. Further cutbacks will leave the programs unable to achieve even the narrowest objectives of helping the unemployed help themselves. I will be happy to answer any questions you have and to help you redefine our employment and training system.

STATEMENT OF JOHN L. CREW, SR., DIRECTOR, BALTIMORE CITY SCHOOL SYSTEM

I welcome this opportunity to provide this distinguished body with facts, feelings and frustrations being experienced in the Baltimore City Public Schools as we face the continued onslaught of Federal budget reductions.

These are, I want it noted, reductions that tax our resources enormously as we strive to provide for all of the children in our school district the services they need to function in our society as successful and productive adults.

It is no mystery to those we serve that the latest round of budget reductions being proposed by the Federal Government will mean a loss of $10.9 million in services to the children of our school system. This figure includes the projected 12 percent cut we have been told to prepare for.

It is all the more tragic to us that the latest budget reductions are being proposed at a time when our school system is making great strides in reversing the downward achievement trends so common to most urban school districts in this Nation today. We are making significant gains while being forced again and again to retrench as we experience success and continue to set higher standards for our youngsters. There is no question that a reduction in the amount of 12 percent or $10.9 million will create serious problems as we tax our existing resources to meet the needs of our children.

In this report, I want to provide information on five areas that will be most hurt by the proposed cuts. These are: ESEA title I; services to the handicapped; impact aid; food and nutrition programs; and youth employment opportunities (through the Department of Labor's youthworks program).

IMPACT AID

Under the area of impact aid, the President's proposed budget reductions would mean the loss of $1.1 million to the Baltimore city public schools. This is, I might add, a program that has already suffered a 33 percent reduction over the last three years and faces total elimination by fiscal year 1982.

While we recognize that the primary responsibility for financing elementary and secondary education rests with the States and local governments—and that parents of children who currently qualify under Public Law 874 also contribute to the support of their children through State and local income taxes—we also bring to your attention the critical information that Baltimore city's revenues fund less than 20 percent of the total cost of education. Over two-thirds of this cost comes from property tax, which brings us to the original intent of the public law cited: To compensate local school districts for the lost revenue which would otherwise be collected through property taxes. Local governments cannot assess property taxes on federally owned properties.

In Baltimore city currently, some 15,000 of the total 120,000 school population qualify for impact aid and under Public Law 874. This is roughly 14 percent of the entire student population of the Baltimore city public schools. These children are defined under the law as "A" and "B" children. In our school district less than 1 percent are defined as "A" children; all others are in the "B" category. President Reagan's proposal to eliminate all payments for "B" children and make payment only to those school districts where at least 20 percent of the enrollment is composed of "A" children would mean a total loss of funding for our school system in fiscal 1982.

In the current fiscal year, Baltimore city received from the housing authority $240,000 for payments in lieu of taxes. These funds are not nearly sufficient to cover lost property tax revenues. If impact aid is eliminated, the burden of subsidizing the education of thousands of children living on Federal property must be passed on to citizens and businesses in the form of higher property taxes.

Entitlements received through Public Law 874 have been used to support the basic costs of education. In fiscal year 1979 Baltimore city received $1.7 million which covered the cost of 125 full time teaching positions. In 1980 the $1.5 million entitlement funded 105 positions and the payments totalling $1.1 million received in the current fiscal year provided funding for 75 positions. The loss of future funding will mean teacher lay-offs and increased class size.

Entitlements through Public Law 874 were never intended to be and have never been a Federal Government giveaway. The purpose was for the Federal Government to meet its obligation to local school districts "in lieu of taxes." This obligation is a real one and will not go away by eliminating funding.

YOUTH EMPLOYMENT PROGRAMS

A great deal has been said about the tragic plight of young people facing an uncertain economy and a job market that appears to many nearly non-existent the figures since the Federal Government pulled back on its commitment to youth speak for themselves. In 1979, in Baltimore city, approximately 26,000 youngsters were employed in various programs, many of which were structured to give them the opportunity to work and attend school, to earn money while completing their education, to learn a skill that compliments the classroom experience.

At present, roughly 530 children are working under these programs. We have stated on numerous occasions that the former administration gave us our work programs for youngsters in one set of clothes. The present administration should not cut them off but rather support youth with perhaps clothing of another type. As was mentioned earlier in this report, it is unfortunate to take from youngsters in need of services, and even more so when the reductions are coming from programs proven to work.

There is no question Federal dollars in youthworks programs in Balitmore have made an enormous difference in the lives of thousands of young people. We have stressed in the past and continue to stress that the Federal Government target funding where it has been shown that the dollars were put to good use. Nowhere in this Nation has Federal money been used more wisely or more effectively than in Baltimore.

We know we have a serious unemployment procket in our city, and that unemployment figures for young people may reach as high as 40–50 percent. We understand our problem and we know how to solve it. Our past track record speaks for itself.

Consider, for example, that even in a depressed economy where jobs seem few and far between, education is the answer in a great many instances. Programs that are fading fast for lack of Federal dollars such as the harbor city learning effort and the disadvantaged handicapped enrichment project have proven invaluable to area youth in need of G.E.D. diplomas, high school diplomas, job preparation, etc. Vocational careers program and summer corps, under the youthworks concept and funded by the Department of Labor, are efforts in which an entire city can take pride. But these are yesterday's success stories as the present budget reductions make them memories of another time.

It was always been our contention that when a program works, it must somehow be maintained. Baltimore and the school system should have earned the admiration of the Federal Government and of the Nation for what has been accomplished here. Our programs are, more often than not, models for others to follow. Instead, it appears much of our best work is on the chopping block. I mentioned the reduction in the youth work force over the past three years from nearly 27,000 to 530. In that three year period the school system's funding for youth employment dropped from $10 million to $172,000. We urge Washington's decision-makers to continue to work with us so that our young people will have every opportunity to find success in their jobs and in their lives.

PROGRAMS FOR THE HANDICAPPED

Without boasting, we know we have one of the best programs for exceptional children in Maryland. Our services are closely observed, and our staff assists other school districts statewide in providing resources so that they may improve their services to intellectually, emotionally and/or physically impaired children.

We serve about 22,000 youngsters who come to us with a full range of handicapping conditions. Public Law 94-142 protects them and their families and guarantees that they will receive every educational opportunity we can provide to help them to become independent and contributing members of society.

It should be noted in the records of this committee hearing that in 1981 we received from the Federal Government for our exceptional children programs

$3,995,255. The 1982 figure is down to $2,996,441, and, with an additional 12 percent reduction, another $359,572 will be cut.

This means 22 fewer positions, thus hampering our delivery system to blind, vision impaired, hearing impaired and deaf youngsters, as well as to youngsters with other physical limitations. It means taxing existing resources even more to meet the needs of students with intellectual limitations or emotional problems. It means increased difficulty in continuing to provide the quality services to those special children we have demonstrated such care and concern for.

But I want to know our commitment in this area is strong, and our children will be served. There is greate human potential here, and the children will continue to receive the finest programs possible. Someone said about programs for special youngsters: "The greatest handicap a child may have could be your lack of understanding." We truly hope the Federal Government's lack of understanding does not become another handicap which our exceptional children must overcome.

FOOD NUTRITION PROGRAMS

Perhaps in this entire report, limited in space to five areas, but in reality concerned with at least nine others, one of the most tragic of all proposed reductions is being faced by the food nutrition program.

Parents and nutritionists alike know well that a child's classroom performance can be measured in many instances by the quality of what that child has eaten. To carry this a step further, one Baltimore city public schools' nutritionist feels certain that improving the quality of what a child eats can play a large part in improving that child's behavior and level of achievement in school.

With the economy being what it is, families have, over the years come to depend on schools to provide children with an importaqt percentage of their daily nutritional requirement and schools have done this.

Regardless of the criticism cafeteria programs receive, children do get a good meal through the free and reduced lunch program—as good a meal as the amount of money provided allows us to give them.

Our cafeteria services must be looked upon as one of the largest food service operations in the State, preparing great numbers of meals to serve our student population five days a week throughout the school year.

But, once again, the numbers tell the story. In 1981, we received some $13, 948,566 to provide food services for our children. This year, the figure is down to $13,672,155, and with an additional 12 percent or $1,640,658 slated for reduction as well, we face the prospect of serving some 5,000 fewer meals a day and reducing our staff by 73 food helpers.

Virtually taking food out of the mouths of children is not the way to prepare our young people to become responsible adults. There must be other ways to balance the Federal budget. Hungry children is not the answer.

ESEA TITLE I PROGRAMS

The Baltimore city public schools serves as the coordinating agency for the distribution of title I funding in our community to elementary, secondary, non-public and middle schools. There are 105 schools being served by the title I program at present, and this includes also institutions for deliquent youth.

The reduction of title I funding by 12 percent should be examined in the context of the recent history of the program. Last year, title I was reduced approximately 3 million dollars, and this year's reduction plus the latest 12 percent figure will mean that in the last two years the program has lost about five million dollars.

What does this mean in terms of essential services? It means that last year, in order to establish an operating budget, summer school was eliminated entirely, health services were cut off entirely, 400 para-professionals and 42 professionals on the staff were let go. The sad truth is: This program has no more services to reduce. What that 12 percent means is that fewer schools will be served and as many as 4,000 students won't receive title I programs. It means a significant reduction from the 34,000 youngsters currently receiving title I benefits.

In the past years, a poverty level was established. With the proposed reductions, that level will no longer be valid. Instead, schools will be served in order of need. They will be ranked by their poverty level and those that are poorest will come first.

In terms of specific services, it may mean no more special assistance to youngsters in need of extra help with reading, language or mathematics problems. It may mean less equipment, fewer teachers and para-professionals.

Perhaps the most striking information I can provide you with is the following: We have never been funded by the Federal Government at a level that would allow us to serve all of the students and schools in need. In fact, we were in the past usually only given enough to help about ⅓ of the students in need of title I programs. Now we are being asked to serve fewer than the ⅓ we were previously helping.

One thing we were able to accomplish last year was a shift in the level of concentration so that we could insure the basic integrity of the program. We continued to provide services at the school site and eliminated other activities such as educational trips, etc.

At this time we are able to document from evidence provided for us by the National Institute of Education and the National Assessment of Educational Progress that title I works and that the children are making significant progress. We fear the reduction of funds will seriously hurt the progress our students have shown. Title I has, in its history, made a significant difference in the lives of thousands of students.

SUMMARY

There are facts to substantiate the merits and successes of the programs in our school system subject to budget reductions. For example, ESEA title I, as several recent research projects have shown, has helped virtually thousands of students to make significant gains. Common sense would tell us the lunch program is of critical importance to many students whose families are at or under the proverty level. Handicapped children must have the maximum opportunity to learn, as guaranteed by law and as a moral and ethical obligation every educator must accept. Impact aid, like title I, helps the disadvantaged in so many ways. And last, but certainly not least, is youth employment, under the Department of Labor. Our young people need job experience and there are fewer and fewer opportunities available for them. To see even these chances taken away is unquestionably one of the great tragedies of our time.

We submit this report as educators whose lives are committed to helping children. We submit this report as parents who want to see our own children and all children in our city have the maximum opportunity to share in a good and productive life. Perhaps in some small way the information in this report can carry to decision-makers the message of thousands of children who will surely be hurt by the budget cuts. We present this report because we care deeply about the present and the future of the children of our school district.

Statement of Bernard L. Berkowitz, President, Baltimore Economic Development Corporation

I appreciate the opportunity of appearing before this committee to testify regarding the adverse effects on Baltimore City's economic development program of actual and proposed federal budget cuts.

Baltimore City's economic development program is a multi-facted effort involving commercial development downtown; revitalization of older existing industrial and commercial districts; creation of new industrial parks; financing asssitance to retain and expand business; and other business assistance services. Our objectives are to reduce unemployment, now nearly 11 percent, and stimulate growth of the City's tax base. An emphasis is placed on increasing employment and business development in the black community which, as elsewhere in the U.S., has disproportionately high unemployment.

Assistance from the federal government through the UDAG, EDA, HUD CDBG and SBA programs has been essential to Baltimore's economic development program and Baltimore has a national reputation for using these programs effectively.

Without trying to describe everything about the amounts of funds received or uses made, I will cite some examples.

Out of fiscal year 1981 funds, two industrial UDAGS were received totaling $565,000. These funds will be lent to a steel fabricator and a large bakery to enable their expansion in the City. The result will be 200 additional manufacturing jobs and the leveraging of about $6 million in private investment. Without these UDAG loans the 200 jobs and related investment would have been lost to the City.

The fiscal year 1982 budget reconciliation already provided for a reduction in the UDAG program from the fiscal year 1981 level of $675 million to $500 million. Now the President is proposing a further cut of 12 percent, or $60 million. This means less funding for the kind of job creating projects I have cited.

EDA Public Works Grants have been the backbone of Baltimore's efforts to retain and attract industry and provided major funding for our 170 acre Holabird Industrial Park and the modernization of the 400,000 square foot Raleigh Building, our vertical industrial park and incubator of small businesses.

Let me cite one specific example of the use of EDA funds. The City acquired the vacant former Baltimore Union Stockyards, cleared the site, and with the aid of about $400,000 from EDA, put in a street and utilities. Twenty acres of land that produced no jobs or taxes for Baltimore, now contain 8 companies with about 450 employees and produce about $160,000 per year in real property taxes alone. And the City has recovered its investment in what we now call the Crossroads Industrial Park.

EDA was appropriated $624 million in fiscal year 1981. President Reagan proposed a rescission of about half of the appropriation. The result would have been no EDA funding for key projects in the pipeline and previously agreed to by EDA staff. Fortunately, thanks to Congress, the rescission was reduced to about half of what the President requested. What has that meant for Baltimore? A great deal. $1.2 million for streets and utilities for our Park Circle Industrial Park, a community economic development project which is expected to provide 1750 jobs targeted on a low income black community. $1.2 million for part of the cost of renovating the City's Lexington Market, a centerpiece for the redevelopment of our downtown retail district. $700,000 for the Park Heights Development Corporation, a black community development corporation, to renovate, manage, and lease two vacant industrial structures owned by the City.

For fiscal year 1982, the National Administration proposes only $50 million less 12 percent. That would effectively end the EDA. The House of Representatives to its credit has approved $313 million while the Senate apparently will approve well over $200 million. We strongly urge the House and Senate to settle on an fiscal year 1982 appropriation of at least $250 million. A key grant of $1.5 million in the EDA pipeline for our Seton Business Park depends on it.

Prior to fiscal year 1981, Baltimore received nearly $5 million per year from EDA on average. The reduction of EDA funding to a $250 million national level means we will get $2-3 million per year perhaps. That is already a significant diminution of resources. The Administration's proposal is a complete wipeout that will effectively cut our industrial retention-attraction program in half.

Also important to cities like Baltimore are the Community Development Block Grant Program which provides some funding for economic development, especially community oriented projects and the SBA programs. Baltimore has already experienced a 10 percent cut in CDBG. Another 12 percent will cut further into the bone. The same is true for a further cut in SBA's program.

Financing through UDAG, EDA, SBA and revenue bonds is important to Baltimore. We urge Congress to preserve these financing programs for distressed cities. If cuts are imposed, the programs should be further targeted to distressed cities. If restrictions are imposed on revenue bonds, preserve the use of revenue bonds for distressed cities.

I hope this committee will carefully consider my testimony and that of my colleagues and resist further cuts in essential City programs.

Thank you.

Chairman **Rostenkowski**. Thank you very much. I'd like to express on behalf of the members of the committee our gratitude for your participation in Baltimore this morning and this afternoon. And special thanks to the Kennedy Institute. It has been a most rewarding experience. I hope that we can go back to Washington and solve some problems.

Mr. **Buck**. We do, too. Thank you.

[Whereupon, at 2:11 p.m., the hearing was adjourned.]

IMPACT OF THE ADMINISTRATION'S BUDGET CUTS

MONDAY, DECEMBER 7, 1981

House of Representatives,
Committee on Ways and Means,
Indianapolis, Ind.

The committee met, at 1 p.m., pursuant to notice, in room 304, Federal Building and Courthouse, Indianapolis, Ind., Hon. Dan Rostenkowski (chairman of the committee) presiding.

[Material pertinent to the Indianapolis hearing follows:]

FOR IMMEDIATE RELEASE
FRIDAY, NOVEMBER 20, 1981

COMMITTEE ON WAYS AND MEANS PR#14
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-3627

THE HONORABLE DAN ROSTENKOWSKI (D., ILL.), CHAIRMAN, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES FURTHER DETAILS ON REGIONAL FIELD HEARINGS ON THE IMPACT OF THE ADMINISTRATION'S BUDGET CUTS

The Honorable Dan Rostenkowski (D., Ill.), Chairman, Committee on Ways and Means, U.S. House of Representatives, today announced dates and locations of public regional field hearings to assess the impact of the Administration's budget cuts (as previously announced in press releases #11 and #12).

Four field hearings have been scheduled as follows:

Indianapolis, Indiana--December 7, 1981

Detroit, Michigan--December 8, 1981

Sacramento, California--January 18, 1982

Seattle, Washington--January 19, 1982

Specific details on each of these field hearings will be announced in subsequent press releases.

Major program changes and reductions in federal funds for various public assistance, health, social services and employment-related programs falling within the jurisdiction of the Committee on Ways and Means were legislated in the Omnibus Budget Reconciliation Act of 1981. The reduced funding levels and most of the program changes were effective October 1, 1981. In addition, on September 24, 1981, the Administration announced that an additional round of budget cuts will be forthcoming. Testimony from invited state and local officials and members of the private sector will focus on the cumulative impact of the Administration's current and proposed budgetary cuts on:

Lives and well-being of individuals: work incentives, access to needed health and supportive services, employment opportunities, food and financial assistance;

The stability and adequacy of programs established by the Congress over the years to sustain and enhance the lives of disadvantaged Americans--the aged, poor and handicapped;

The capacity of state and local governments to fiscally and administratively manage, under the "new federalism" mandated by the President's budget cuts, the full range of programs that have now been thrust upon them.

The Committee will also examine whether the states have the financial or administrative resources to absorb further reductions.

In addition, the Committee plans to explore the effect the recently enacted Economic Recovery Tax Act of 1981 will have on State and local revenue bases.

Interested individuals and organizations may submit written comments, which should address only the above subjects, throughout the course of the hearings. Comments (3 copies) should be submitted to John J. Salmon, Chief Counsel, Committee on Ways and Means, 1102 Longworth House Office Building, Washington, D.C. 20515.

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FOR IMMEDIATE RELEASE
THURSDAY, DECEMBER 3, 1981

COMMITTEE ON WAYS AND MEANS PR #15
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-3627

THE HONORABLE DAN ROSTENKOWSKI (D., ILL.), CHAIRMAN, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES FURTHER DETAILS ON THE REGIONAL FIELD HEARING TO BE HELD IN INDIANAPOLIS, INDIANA, ON DECEMBER 7, 1981, ON THE IMPACT OF THE ADMINISTRATION'S BUDGET CUTS

The Honorable Dan Rostenkowski (D., Ill.), Chairman, Committee on Ways and Means, U.S. House of Representatives, today announced further details on the field hearing in Indianapolis, Indiana, on Monday, December 7, 1981 (as previously announced in press release #14), to assess the impact of the Administration's buget cuts.

ITINERARY

SITE VISITS:

10:15 a.m. Tour of the Center Township Building

11:00 a.m. Near East Side Multi-Service Center Tour

11:45 a.m. Luncheon - Near East Side Senior Citizens Center

PUBLIC HEARING - BEGINNING AT 1:00 P.M.

ROOM 307, FEDERAL BUILDING & COURTHOUSE,

The Honorable William H. Hudnut, III, Mayor of Indianapolis

***

The Honorable John M. Mutz, Lieutenant Governor of Indiana

***

Dr. Benjamin A. Osborne, Center Township Trustee of Marion County

***

PANEL:

The Honorable Louis J. Mahern, Jr., (D-33rd Dist.) Indiana State Senate

The Honorable Charles Bosma, (R-32nd Dist.) Indiana State Senate

The Honorable William A. Crawford, (D-45th Dist.) Indiana House of Representatives

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MORE

PANEL:

Mr. Dallas Sells, Director, Region Three United Auto Workers (Indiana - Kentucky)

Mr. Max Wright, Secretary-Treasurer, Indiana State AFL-CIO

***

PANEL:

Mr. John Heiny, Director, Allen County Welfare Department

Ms. Dorothy Burse, Director, Citizens Multi-Service Center

Mr. G. Richard Powell, Director, Wayne County Department of Public Welfare

Mr. James Mitchell, Director, United Southside Community Organization

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PANEL:

Mr. Sam H. Jones, President, Indianapolis Urban League, Inc.

Ms. Mary Crean, Indiana Legal Services Programs

Dr. Grover Hartman, Chairman, Coalition on Human Services

***

PANEL:

Mr. Thomas W. Moses, Chairman of the Board, Indianapolis Chamber of Commerce

Mr. C. Robert Norman, Administrator, Heritage House Convalescent Center

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*

Details for future field hearings will be announced in a subsequent press release.

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December 3, 1981

Background Information Prepared for the Indianapolis Hearings

On the Impact of Changes and Budget Cuts in Programs Under the Jurisdiction of the Committee on Ways and Means

December 7, 1981, 1:00 p.m.

Room 307 Federal Building
46 East Ohio Street

Indianapolis, Indiana

Before the

Committee on Ways and Means

U.S. House of Representatives

I. PROFILE OF INDIANAPOLIS

Indianapolis is the largest city in the United States with a consolidated city-county government -- Unigov (unified government). While Unigov has brought the Administrative and some other powers of Indianapolis and Marion County governments together since its inception in 1970, 50 units of government, however, continue to have taxing power and supply some limited or specialized services to Marion County residents.

The 1980 census reports 700,807 residents in the City of Indianapolis, down 5.9% from 1970. Over the same decade, the eight-county Indianapolis metropolitan area grew by 55,577 persons (5%) to 1,166,929. The most densely populated area of Indianapolis, Center Township, lost population at the rate of 500 persons per month. Although this decline in population involved substantial numbers of both races, the black population of Indianapolis increased by 13.6% in the decade and constitutes 21.8% of the city's total residents.

Indianapolis is a city of sharp economic contrasts. The center city commercial area, "the mile square," has exhibited dynamic development with the construction of high rise office buildings, restoration projects, and general revitalization. At the same time, the unemployment rate hovers near 9% and 35% of the center city's residents are on relief.

Indianapolis plays an important role at the state and regional level as a producer of transportation equipment, as a center for higher education, and as a headquarters for private and public decision making. General Motors Corporation, the city's largest private employer through its Detroit Diesel Allison and Chevrolet Divisions, provides a pay check to over 20,000. Government, federal-state-local, accounts for over 41,000 employees. Other major employers are: Indianapolis hospitals 14,000; Bell Telephone System (Indiana Bell and Western Electric) 14,000; RCA 6,800; and financial institutions 6,200. Important public and private institutions impacting heavily on the community are Indiana University-Purdue University at Indianapolis (IUPUI) with 7,100 employees and Eli Lilly & Company pharmaceuticals with world headquarters in Indianapolis and an employer of 8,600. These major employers accounting for well over 20% of Indianapolis' employees together with an extensive infrastructure provide the economic base for Indianapolis.

Federal funds account for 44% of Indianapolis' current annual operating budget. State property tax controls, an estimated $13 million cut in federal funds, and inflationary pressures combine to constrict city government's ability to deliver basic services. To continue to provide the needed level of police and fire protection, the city is asking to be allowed to increase the property tax by nearly 30%.

II. Examples of Budget Reductions in AFDC, Medicare and Social Security

AFDC Impact of Earnings Disregard Changes

For a family of 3 (mother and 2 children) in Indiana, the maximum AFDC payment is $255 per month. This family of three loses eligibility for any AFDC assistance when earnings exceed $460/month (150% of State standard of need). With no earnings this family will receive $255 in AFDC benefits plus $167 in Food Stamps for a total net income of $422 per month. The budget reductions did not affect this family with no earnings. The three examples below illustrate how net income changes as earnings increase under prior and current law.

Example 1: $200 in monthly earnings, EITC of $20, $100 in work expenses including day care:

	Previous Law	Current Law Months 1-4	After 4 Months
AFDC	$249	$244	$198
Food Stamps	115	116	130
Net Earnings (includes EITC)	120	120	120
Total Net Income	484	480	448

Example 2: $300 in monthly earnings, EITC of $30, $150 in work expenses including day care:

	Previous Law	Current Law Months 1-4	After 4 Months
AFDC	$226	$193	$121
Food Stamps	96	104	125
Net Earnings (includes EITC)	180	180	180
Total Net Income	502	477	426

Example 3: $581 in monthly earnings (full-time minimum wage job), EITC of 32, $300 in work expenses including day care:

	Previous Law	Current Law Months 1-4	After 4 Months
AFDC	$187	0*	0*
Food Stamps	40	92	92
Net Earnings (includes EITC)	313	313	313
Total Net Income	542	405**	405**

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*Earnings exceed 150% of "State standard of need". Possibly loses medicaid.

**Less income than the same family with no wage income.

MEDICARE

Increase in Beneficiary Copayments or Deductibles

The 1981 budget cuts will result in increased out-of-pocket expenses for medicare beneficiaries for both hospital (Part A) and physician (Part B) services.

The hospital inpatient deductible and corresponding coinsurance amounts will be increased beginning in 1982. Prior to the budget cuts, the inpatient hospital deductible would have increased from $204 in 1981 to $228 in 1982 -- an increase of 12 percent. Now an elderly person entering the hospital in 1982 will pay a deductible of $260 -- an increase in out-of-pocket expenses of 27 percent compared to 1981.

The deductible for physicians' services under medicare was also increased 25 percent beginning in 1982 from $60 a year to $75. In addition, as a result of the budget cuts there is a new rule that requires the part B deductible to be met again in the new year even though the beneficiary met the deductible late in the previous year. Thus, a beneficiary who had met the $60 deductible by incurring expenses in December 1981 will need to meet a $75 deductible in 1982 before medicare will begin to make payment for physician services. (Under the old law, the 1982 deductible for this beneficiary would already have been met.)

SOCIAL SECURITY

Repeal of the Minimum Benefit

For an individual who turned 65 in 1960, the minimum benefit was $33 per month. This individual with a spouse who was primarily a homemaker, would have received $49.50 per month or $594 per year. Primarily to keep pace with inflation, these benefits have increased to $3,066 per year as of July, 1981.

Based upon the formula, the couple could have received anywhere from 25 to 100 percent of that minimum benefit in 1960 based solely on his earnings pattern. Thus in April of 1982, their benefit could be reduced by up to $2,300 per year.

For a widow, age 86, who is receiving a survivor benefit based upon someone who received the minimum benefit, the loss could be $1,533 per year.

This provision will affect approximately 1,300,000 individuals and will result in an average loss of $1,000 per year.

Elimination of Insurance Benefits for Children Attending Postsecondary Schools

In 1975, John Doe and his mother began to receive a social security check of $400 per month, $200 for each beneficiary as the result of the death of John's father. John is currently a senior in high school and is receiving a check of $335 per month.

When John graduates from school in July of 1982, his monthly benefit will end. Under prior law, assuming 10 percent inflation each year, he would have received $20,544 throughout his four year college program. Under current law, he will receive no social security benefits.

III. INDIANA ECONOMIC AND PROGRAM DATA

INDIANA AFDC PROGRAM SUMMARY

Recipients (as of December 1980):

Number of Families	60,229
Individuals	170,239
Children	119,431 (70%)
AFDC Families	-0-
Average Family Size	2.8 members
Percent employed (1979)	19.7 percent

Monthly Benefits for a family of three (as of July 1981):

State "Standard of Need"	$307.00
Maximum amount paid	255.00
Percent of "need" paid	83%
Maximum monthly earnings at which a family of three loses eligibility for AFDC under provisions contained in FY 1982 Budget Reconciliation Act. (150 percent of State "Standard of Need")	460.50
Maximum monthly earnings at which a family of three lost eligibility for AFDC, prior to FY 1982 Budget Reconciliation Act (assuming work expenses equal 20 percent of earnings and child care expenses of $150 per month)	955.00

Program Options (as of October 1, 1980):

1.	Benefits for unemployed parents	NO
*2.	Benefits for unborn child	NO
*3.	Benefits for youngsters over 17 who are in school	NO
4.	Emergency Assistance	NO
5.	Local Government Share in	YES (40% of non-Federal share)

Expenditures (preliminary fiscal 1980 estimates):

Total	$128,740,518
Federal Share	73,742,568
Percent Paid by Federal	57%

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*Program options repealed or restricted by FY 1982 Budget Reconciliation Act.

IV. SUMMARY OF INDIANA UNEMPLOYMENT COMPENSATION PROGRAM AND UNEMPLOYMENT STATISTICS

UNEMPLOYMENT

	August 1980	(preliminary) August 1981
Total unemployment rate	10.6%	8.7%
(for Indianapolis)	(8.3%)	(7.9%)

	10/11/80	10/24/81
Insured Unemployment Rate (percent of workers covered under State unemployment compensation program claiming benefits)	3.3%	2.8%
Extended Benefits "Trigger Rate" (extended benefits trigger off as of 10/24/81)	5.30 (313%)	2.41 (78%)

UNEMPLOYMENT COMPENSATION:

	10/11/80	10/24/81
Number of Claimants	69,687	57,124

	As of July 1981
Maximum weekly payment	$ 84.00 140.00 (with dependents)
Maximum number of weeks of State benefits	26
Requirements for maximum	$2,412.79 in base period 1,930.23 in high quarter

State unemployment maximum/tax:

base	$6,000
rate	3.3%

Average State unemployment tax rate	1.7%
Outstanding Federal loans	-0-
Total State benefits paid in 1980	$330,099,371

The Committee visited the Center Township Trustee office of Marion County prior to the Indianapolis hearing.

The CENTER TOWNSHIP TRUSTEE is a Constitutional elective office that provides direct general assistance to the poor. While county welfare departments administer on-going programs, the township trustee gives immediate, emergency aid. The trustee is legally obligated to provide food, clothing, heating fuel, medical help, utilities, transportation for employment and school lunches. The trustee's office must help families in need to acquire basic furniture and utensils, and try to find employment for the client. The trustee is assisted by an elected 3 member advisory board. Each trustee has an office in the township (there are 9 in Marion County). Indiana has a total of 1,008 trustees.

Dr. Benjamin A. Osborne, Center Township Trustee of Marian County, testified at the Indianapolis hearing, and his testimony appears later in this section.

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The Committee also visited the Near East Side Multi-Service Center in Indianapolis. The following was received from John H. Boner, Executive Director of Near East Side Multi-Service Center, Inc.:

NEAR EASTSIDE MULTI-SERVICE CENTER, INC.

The Near Eastside Multi-Service Center, Inc. was honored to receive a visit by members of the House Ways and Means Committee, December 7, 1981. Those in attendance were able to see first-hand the quality and coordination of social services provided through a viable community-based organization. We appreciated the time and encouragement shared by Chairman Rostenkowski and representatives John Hiler, Ed Jenkins, Richard Gephardt, Robert Matusi, Don Bailey, and our own Andy Jacobs.

This agency receives 94% of its fund support from the federal government, directly or channeled through the State of Indiana or City of Indianapolis. Staffing patterns and services have adjusted as budget reductions have occurred this fiscal year. While programs overall continue to operate in a reasonable manner, our community and Board of Directors are alarmed at the prospect of further cut-backs.

Our first concern is that Community Development Block Grant funds are in jeopardy. The City of Indianapolis uses part of its allocation for basic operation costs and administration of the Multi-Service Center Network of ten (10) sites across the city. Quite frankly, it is these monies that are the glue that hold the entire system together. Without such funds, it is possible that the Near Eastside Multi-Service Center, Inc. could no longer operate. Services lost to more than 5,000 different clients annually would include an emergency food pantry, counseling, employment guidance, tax assistance, fuel relief, programs for youth, office space to de-centralize other agencies, and a core for casework/information/referral contacts.

We are in full agreement with Mayor William H. Hudnut's recent remarks, "We hope the President and Congress recognize what fairness is all about and will begin to look at the 85% of the budget which largely escaped the budget ax earlier this year....We are supportive of President Reagan's efforts to reign in federal spending and reduce enormous taxation and regulation. What concerns me today are future (budget-cutting) proposals. The cities of America have taken their fair share of budget cuts."

A second impending crisis would be triggered by further reductions is Title XX (Social Security Act) programs. Already cutbacks have not been cost effective. For example, resources are shrinking for homemaking services which allow an elderly person to stay at home and prevent institutionalization. In our locality, it is obviously more cost-effective to avoid nursing home care when possible. We are convinced that lessening funds for homemaking services will increase the number of persons that are inappropriately institutionalized.

We are an agency created to serve the powerless and distressed persons in our community of 50,000 residents. We must advocate on their behalf that services be preserved which serve to stabilize their lives. It would be the cruelest irony of all if resources to serve are removed when the needs for services are increasing.

Near Eastside Multi-Service Center, Inc.

John H. Boner, Executive Director
2236 East Tenth Street
Indianapolis, Indiana 46201

NEAR EASTSIDE MULTI-SERVICE CENTER, INC.

Program Services -- representative statistics for October, 1981*

SOCIAL SERVICE DIVISION--

To assist area residents with problems relating to food, utilities, unemployment, housing, clothing, income or family unrest. Seasonal projects include Christmas, income tax consulting, property tax/mortgage exemption filing, applying for energy rebate (Project SAFE). Office space is supplied for other agencies.

*172 different clients for counseling
671 contacts of casework: information, referral, mediation, housing assistance, employment assistance, etc.
113 times of clothing or emergency food distributed
352 households picked up food stamps
78 individuals served by Family Service Association
62 juveniles met with probation officers

1981 BUDGET:	$14,852	Community Development Block Grant
	50,365	CETA
	20,000	Title XX - Social Security Act
	(20,000)	deficit
	$105,217	

NEMSC 70001--

To combat high unemployment rate among Indianapolis' high school drop-outs by offering pre-employment training, placement in private sector jobs, and tutoring for the G.E.D. Seasonal project is Hire-a-Teen: part-time temporary jobs.

* 17 associates October 19-31
103 individuals involved in specific activities
23 agencies contacted/cooperating

1981 BUDGET:	$221,849	CETA

HOMEMAKER--

To help senior citizens stay in own homes for as long as possible by assigning homemakers for shopping, errands, medical transportation, and general housekeeping.

*154 different clients
1265 hours of homemaker service

1981 BUDGET:	$60,491	Title III - Older Americans Act
	97,490	Title XX - Social Security Act
	5,000	WIN
	$162,981	

SENIOR CITIZENS CENTER--

To offer multi-purpose facility and focal point for community senior citizens with transportation, recreation, education, socialization, and health-related activities, plus outreach into two downtown high-rise apartment buildings.

*256 different senior citizens
1724 days of programming (4+ hours)
616 round-trip pick-ups on mini-bus

1981 BUDGET:	$120,704	Title XX - Social Security Act
	29,470	Community Development Block Grant
	$150,174	

NEW LIFE MANOR--

48 one-bedroom, all-electric apartments for elderly and handicapped persons with Section 8 rent subsidy.

*48 apartments occupied

1981 BUDGET:	$186,048	HUD Section 8 + tenant payments

PRIMARY PREVENTION--

To involve young people in endeavors as alternatives to substance abuse that enhance self-concept and decision-making skills.

* 62 different young people
219 client contacts

1981 BUDGET:	$20,000	Div. of Addiction Services, Dept. of Mental Health (Indiana)
	14,217	United Way
	$34,217	

☆ PERSONAL CARE ASSESSMENT--

To interview, assess needs, and act as advocate for individuals aged 60 and over when services are needed and the senior citizen is not able to secure them.

* 90 different individuals
163 hours of service: assessment, information, referrals, mediation (bulk of service is in client's home)

1981 BUDGET:	$48,590	Title XX - Social Security Act
	4,130	Community Development Block Grant
	$52,720	

☆ CRAFTS COTTAGE--

To operate a store-front for the sale of consignment goods handcrafted by area residents, with emphasis on senior citizens and handicapped artisans.

* 35 consignees
2 craft classes

1981 BUDGET: $2,176 ACTION

CHART OF FUND HISTORY

	78-79	79-80	80-81	PROJECTED 81-82
Community Development Block Grant	12%	9%	13%	9%
CETA	58%	43%	40%	35%
Title XX - Soc. Security Act	17%	24%	27%	33%
Title III - Older Americans Act	--	2%	5%	3%
ACTION	--	--	1%	1%
Cities in Schools	--	11%	6%	--
Indiana Department of Mental Health	1%	3%	4%	1%
United Way	--	--	1%	6%
Miscellaneous	11%	7%	4%	5%
PRIVATE CONTRIBUTIONS	2%	1%	1%	7%
Total Dollars	$ 1,084,354	1,051,698	999,863	809,000
10% Adjustment For Cost-of-Living →	base	1,192,789	1,312,068	1,443,275

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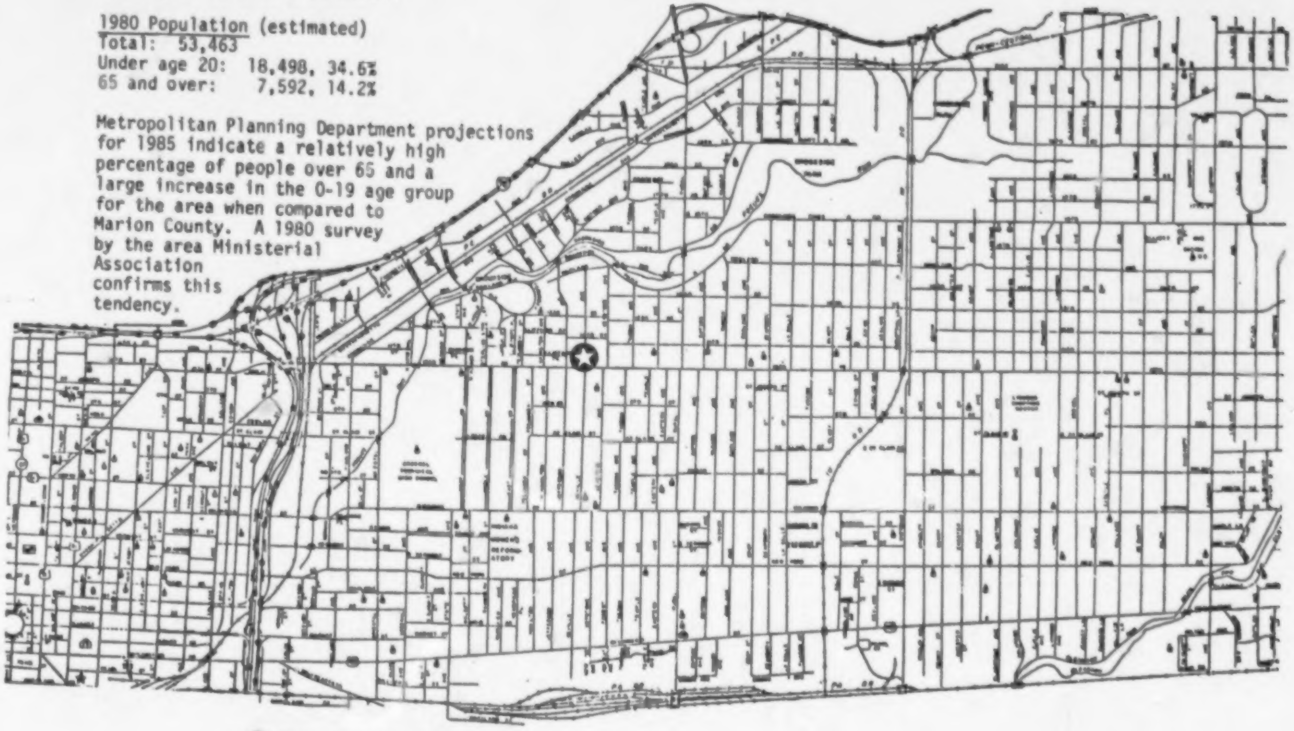
NEMSC Service Area
Meridian to Emerson
Washington to I-70/21st Street

1980 Population (estimated)
Total: 53,463
Under age 20: 18,498, 34.6%
65 and over: 7,592, 14.2%

Metropolitan Planning Department projections for 1985 indicate a relatively high percentage of people over 65 and a large increase in the 0-19 age group for the area when compared to Marion County. A 1980 survey by the area Ministerial Association confirms this tendency.



✪ Near Eastside Multi-Service Center
People's Health Center
Near Eastside Senior Citizens Center
New Life Manor

Form No. 48
6/81

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Chairman **Rostenkowski**. The committee will come to order.

We are certainly pleased to be in Indiana, and in Indianapolis with Mr. Jacobs and Representative Hiler from South Bend.

It has been rewarding thus far to have shared a luncheon with senior citizens who in many instances will be the ones who will be shouldering a great deal of the burden in the domestic cutbacks. There is no question that there has been a mandate for change, and I think one of the proudest moments I had was when the Ways and Means Committee, in their own fashion, addressed themselves to the cuts that were necessary.

I am, however, somewhat sorry that the recommendations of the Ways and Means Committee were not adhered to in the final outcome of the legislative cuts, but we are here to test the strength of what is known in Washington as the social safety net, how this safety net operates in Indiana.

This week, the President begins looking at next year's cuts, and as is evidenced by the media nationally, those cuts are going to be significant.

When you have done the job that we have in Washington in the past year, and are going to extend cuts even further in the coming year, we are really touching the bone of the social sphere of our country.

I am sure we will be interested in finding out how you people here in this great State will be able to absorb these cuts, or what your capacity for absorbing more cuts will be.

We are going to be in Indianapolis today and move on to Detroit tomorrow, and then next year, we are going to the west coast.

This has not been the ordinary format that the Ways and Means Committee has used over a period of years, but I want to express my appreciation to my colleagues, including the Republicans, for taking their time to join with us in seeing what the mid-American feels and hearing it for themselves. So, to our hosts here in Indianapolis, thank you for your hospitality thus far.

Mr. Gradison.

Mr. **Gradison**. Thank you, Mr. Chairman.

Mr. Chairman, I want to thank those who were involved in the arrangements for today's hearing, which is held 100 miles away from my district in Cincinnati, in a community which has a long tradition of justifiable civic pride, and a community which faces many of the same problems we have just across the border in Ohio.

I want to stress the bipartisan nature of the concerns which bring us here today.

It is certainly true that budget initiatives come from the President, whoever that might be at any given time, but the President can only propose legislation. No budgets are approved or appropriations put into law unless they have the support of the Congress, and the budget cuts or adjustments or changes, whatever you wish to call them, that have already been put into effect could only have happened with bipartisan action, which is exactly what we had.

We have a Republican-controlled Senate and a Democratic-controlled House which have approved these cuts.

We have 35 members on our own committee and 17 of the 35 members, just 1 short of a majority of this committee, voted on the floor of the House of Representatives in support of the cuts in the

1980 budget in the omnibus reconciliation package, and of those voting in favor of the final approval were 2 of the 3 senior Democrats on this committee.

I cite that to indicate that I think we have a concern which reaches across partisan lines, and to underline my belief that the only thing worse than cutting the budget is not cutting the budget.

We have a clear mandate to do this and the problem is how to do it intelligently.

That is why we are here and the effect of these cuts have to be monitored carefully, not just what the future may bring, but what the adjustments are that have already been made.

Chairman ROSTENKOWSKI. Thank you very much.

Our first witness, the Honorable William Hudnut. Mr. Mayor, thank you for you hospitality.

STATEMENT OF HON. WILLIAM H. HUDNUT III, MAYOR OF INDIANAPOLIS; ACCOMPANIED BY JOSEPH A. SLASH, DEPUTY MAYOR, AND JOHN L. KRAUSS, DIRECTOR, DEPARTMENT OF METROPOLITAN DEVELOPMENT

Mr. HUDNUT. We are very glad to have you here.

I would like to welcome you to the greatest city in the United States with the possible exception of the towns that you all represent.

Mr. Chairman, members of the committee, Congressman Jacobs, in particular, accompanying me here are the deputy mayor of Indianapolis, the Honorable Joseph A. Slash, and the director of the Department of Metropolitan Development, Mr. John Krauss, because I thought that you might want to pursue some questions that they could better answer than I.

Mr. Slash basically is in charge of the CETA program, and Mr. Krauss is in charge of programs relating to community development.

We appreciate the opportunity to discuss with you on our city and to explain some of the things that we see coming in the future.

There can be no question that we are in an age of transition that will require what might be called creative frugality from locally elected officials. But before I get into some of the exercises in creative frugality we are undertaking in Indianapolis, please allow me to share with you some thoughts on the budget cuts to date.

I agree with Congressman Gradison, that the only thing worse than cutting is not cutting. It reminds me of what Will Rogers said. He said, "The only thing worse than taxation without representation is taxation with it."

There can be no question that in the first round of cuts, State and local government took the major share, approximately two-thirds.

City government in Indianapolis is going to survive those cuts fairly well, although it is hard to put a finger on the broader impact of those cuts on those in need.

Our work force is down in city hall by about 12.5 percent from 1 year ago.

Some of our staffs are about one-half of their authorized strength—Department of Transportation.

Next year, another department—Department of Parks and Recreation—will have only 50 percent of the purchasing power it had in 1977.

Wage scales for remaining city employees are far below the CPI of the past few years.

We are not resurfacing streets in the volumes of the past.

Community centers have had to close.

Housing and commercial rehab work has been scaled back in some areas.

Police car purchases and other routine equipment expenditures have had to be delayed or canceled.

So we have had to tighten our belts, but by and large, we are not experiencing the enormous layoffs and service curtailments evident in other cities, and we are proud of that fact.

What concerns me today are future proposals.

The cities of America, in my opinion, have taken their fair share of the budget cuts. And we are supportive of the President's efforts to rein in Federal spending and reduce onerous taxation and regulation. But we hope the President and the Congress recognize what fairness is all about and will begin to look to the 85 percent of the budget which largely escaped the budget ax earlier this year.

For instance, defense expenditures and the entitlement programs.

The need for a stronger defense is readily evident after a decade of neglect. But in such a massive budget, no one can convince me that waste is not a problem.

I have seen editorials in papers about subsidized $3 steaks at the Pentagon. It is hard to fathom the massive cost overruns which accompany all of our advanced weapons systems. It seems to me that strengthening our military capacity requires more than simply increasing expenditures by 7 percent per year in real terms.

And what about the entitlement programs? How about looking at tying increased benefits to something like the average wage earner's salary increase rather than to the CPI? Wage earners are not keeping up with inflation and have not for several years, yet they are paying the taxes which fund the entitlement programs. That does not seem equitable to me.

And how about the Congress passing the fiscal year 1982 appropriations bills so we all know where we stand?

Let me turn now to how we in Indianapolis are approaching the future. We are fortunate as a city to be blessed with hundreds of thousands of people who care very much about their town's future, and who are willing to work to insure its continued growth.

Businessmen, labor groups, church and civic organizations, and a network of about 400 neighborhood associations all have contributed in the past, and will have an even greater role to play in the future.

We can all agree that economic development is the key requirement for any city to be healthy. Most Government officials give the concept of public-private cooperation a lot of lipservice, but in Indianapolis, we think it is a concept very much worth pursuing and, as you will hear from other witnesses, the civic pride needed to make it work is very much in evidence in our business community.

The beautiful new bricks along Market Street were funded 90 percent by private contributions.

The Indianapolis Chamber of Commerce studied the feasibility of expanding our convention center and tying that into the construction of a domed stadium. When the results were positive, two foundations contributed $30 million toward the $70 million total cost, recognizing the economic growth this project will spur.

Private contributions have in large measure brought about the development of the Indianapolis Sports Center, a new natatorium and a track and field facility—all on the IUPUI campus. That stands for Indiana University, Purdue University at Indianapolis.

American United Life Insurance, Eli Lilly & Co., American Fletcher National Bank, and several others have committed to multimillion dollar developments in the heart of our city rather than going to the suburbs.

The list really goes on and on. And I am happy to say that we have adopted a similar approach to human service needs and social concerns.

When we experienced problems with police-community relations, 25 individuals, representing a broad cross section of the community, agreed to serve on what came to be known as the Tanselle-Adams Commission to recommend solutions.

When the schools of Marion County were desegregated by court order this school year, thousands of individuals on all sides of the issue took part in the Pride task force to see to it that desegregation took place smoothly and responsibly.

When problems were experienced in the Indianapolis Housing Authority, the Greater Indianapolis Progress Committee formed a special task force to study the problems and propose solutions.

The Community Service Council and United Way of Greater Indianapolis have agreed to my request that they do a complete evaluation of the multiservice center network in the city and draw up plans for a strong federation which would be responsible for oversight and delivery of human services in this area.

These are the kinds of things that simply must continue to happen here and in other cities if urban America is going to prosper in this new era.

Additionally, State governments will have to recognize the cities as full partners in the Federal system and release them from the political and revenue shackles of the past.

If the cities are to fulfill the responsibilities they have, they must be given the financial wherewithal to do so—something very few cities now have under existing State laws.

Finally, let me say that I am optimistic about the future of the cities. The creativity, energy, knowledge, expertise, experience, and vision required to build toward a better tomorrow are in abundance.

There is a renewed interest in urban living demonstrated most recently just a few blocks from here when 120 condominium units were snapped up in just 2 days even though not a one of them had been built.

Neighborhoods all over our city, and in many others, are experiencing a rebirth and renewal primarily as a result of private individual initiative.

To be sure, there are many trouble spots ahead, but as historian Arnold Toynbee was fond of pointing out, civilization became great by overcoming challenges.

And there is no doubt in my mind that our great cities will become greater by facing and overcoming today's challenges.

Thank you. This is a broad-brush approach to this subject. I will stop my comments at this point, thanking you for the opportunity of making the presentation and respond to your questions.

Chairman ROSTENKOWSKI. Thank you, Mr. Mayor. I take it from your testimony that you are satisfied that the private sector is picking up on the slack that we recognize will come when government removes itself.

Mr. HUDNUT. No, sir; I do not think it is picking up the slack, and it would be a mistake to ask it to, because it will be too large.

With the new tax regulations that you all initiated, the increase from 5 to 10 percent will perhaps be an inducement for corporations to give more to charitable institutions, but I think that one of the things that is coming down the road as a result of the dialog on the new federalism and everything else is an increasing awareness on the part of many communities of the importance of cooperation with the private sector and unleashing the spirit of volunteerism.

I do not think we should ever ask the private sector to be the surrogate for government on any level and do things that we should be doing, but I do think, and I think the illustrations that I mentioned here in Indianapolis serve to bear me out, that there is on the part of many people in the private sector a great deal of commitment and dedication to making the cities work, and we are very grateful for the generous support that we have received here in this community on a number of different fronts and projects.

Chairman ROSTENKOWSKI. You are certainly knowledgeable, and are aware of the fact that there are going to be more cuts.

In what area do you feel Indianapolis can afford more cuts from the Federal Government?

Mr. HUDNUT. Perhaps I was not specific enough, Mr. Chairman. I would be very happy if there were not any more cuts in the 15 percent of the budget that is discretionary for social and urban programs. I think we have taken our fair share, two-thirds, the first round of $35 billion which came from that. Twelve percent across the board is too much. I think 6 percent across the board is too much.

I would like to plead with you to save general revenue sharing, if no other program. There are 500 programs that affect the cities, and it would be my hope that, while we don't need all of them, you would recognize that the No. 1 priority for the cities of this country is general revenue sharing which goes to 39,000 different localities, and is the best of all Federal programs, because it gives us the most flexibility, is the least categorical, has the greatest amount of return back to the people, the least amount of overhead, if you please, and is the glue that holds many budgets together.

If you discount any further cuts in the 15 percent, recognizing and believing that we have already taken enough cuts there, then you are remitted to looking either to the entitlements programs which are regarded as sacrosanct—it takes a lot of courage to talk about them—or the sacrosanct defense budget.

Chairman **Rostenkowski**. A lot of Congressmen voted against them, too.

Mr. **Hudnut**. I know, and yet I think that your committee could do a great service to the public by looking at those two areas; but more than that, since you are involved in the Ways and Means Committee with the tax system, how about tax expenditures and tax breaks and loopholes?

Could we not save a lot of money by closing some of the loopholes that exist by ceasing some of the subsidies that exist in agricultural and dairy products, without laying it all on the back of urban America?

What about the tremendous tax break that you voted last summer, the all savers certificate, which I and the National League of Cities opposed. We recognize the S. & L.'s have a problem, but according to the Municipal Finance Officers Association of America, that particular tax break is going to cost the Treasury some $5 to $6 billion, which is more than the entire revenue sharing program.

What about the Defense Department? Is it necessary to have just an automatic 7-percent increase that now takes it up over $200 billion or was Mr. Stockman at least partially right when he talked about the quagmire and the $10- or $20- or $30-billion there; perhaps if it was looked at with the same kind of microscope as the urban programs, you might find some salvage there.

Chairman **Rostenkowski**. One more observation, Mr. Mayor.

You alluded to the appropriations bills. I want to point out that the appropriations bills, all but one, were passed by the House and are awaiting for some action in the Senate, so at least for my colleagues here, we have done 99 percent of our job.

Mr. Gradison.

Mr. **Hudnut**. As a former Member of your particular branch of Congress, I would say that I would agree with you in your criticism of the other body.

Mr. **Gradison**. Mr. Mayor, I served some time ago as mayor of my city of Cincinnati and have watched with tremendous respect the job that you have done here in Indianapolis, and the leadership you have given not only in Indianapolis, but in the mayors' organizations all over the United States.

It seems to me, as I listen to you, that I sense two concerns which may be the same but may be a little bit different.

One is a concern that cities take no more than their fair share of the cuts. The other seems to be a feeling that more certainty is required, so that you can make plans and know the ground rules under which you are going to be operating without having such frequent changes of such large magnitude take place.

Now, I wonder if I am correct that the second aspect is part of it, and if you would elaborate on that. We made quite a point in the tax field of trying to provide some degree of assurance as to what the rules would be as a means of stimulating business investment and letting investors know what the tax laws are going to be for some time off in the future.

Do you envision any mechanism more effective than what we have today so the cities and States in America would know where they stand.

Mr. HUDNUT. I am not sure a moratorium is a mechanism, but I agree with Governor Snelling, in saying a moratorium on further cuts to State and local government would be very helpful.

It is very hard when you are in the middle of a budget year, sir, to know where you are when there is talk about further cuts in the programs that you have already budgeted like a community development block grant program where we have some $11 million budgeted for 1982, or the general revenue sharing budget which is already in place for 1982 where we have some $12½ million, and are we going to have to reduce those programs by 12 percent or by 6 percent or something else?

It creates a great deal of uncertainty and it represents a great disservice to the cities, when in the middle of a budget year, you are told you may be losing some of the money you have already been promised.

Congress reauthorized that for a 3-year period by rather substantial margins in both houses. The cities were told for 3 years revenue sharing would be there, not at any increased level, but the same level as it was almost 10 years ago; but nonetheless, it is there and it really creates a hardship to force us to do without it or without a percentage of it, after you already have it plugged into the budget process.

There are many mayors who feel as though too much is coming down the pike too soon and we ought to rein in the horses and have a chance for adjustment.

We had to see the handwriting on the wall a couple of years ago and under Deputy Mayor Slash's leadership, we began phasing out the CETA program before the cuts came.

If you only have 6 months from the time the money is turned off to the time the last person can be on your payroll, maybe that is not enough of a transition time.

You cannot stop these things overnight.

Mr. GRADISON. Thank you very much, thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Jacobs.

Mr. JACOBS. Mr. Mayor, your testimony is most welcome. I would like to consider just two points. First of all, the one on which we have traditionally disagreed. As I recall, you won the argument once, and I won the argument once.

Mr. HUDNUT. As to which Congressman would serve this constituency vote on revenue sharing?

Mr. JACOBS. As to which job was the best training ground to be mayor of Indianapolis, I suppose. But I think your point is well-taken with regard to revenue sharing.

I don't regard it as the best of statecraft; but I regard it as the height of folly, as you suggest, to cut it out suddenly when cities have already budgeted and depended upon it.

The thing that I applaud the most which you have said here today which, by the way, takes great courage to say, could be summed up in the criticism I have made in the National Government's budgeting. And that is the idea of billions for defense waste, and not 1 cent for what we are supposed to be defending.

We do need a strong defense. We also need an intelligent defense, and it is not intelligent, as you suggest, to countenance and tolerate cost overruns on weapons systems, particularly those that are antiquated year in and year out, and then tell the widows that they can't even have their money. There isn't much left to defend.

I think you have demonstrated some political courage in making that statement at this time.

Thank you.

Chairman **Rostenkowski**. Mr. Jenkins.

Mr. **Jenkins**. Thank you, Mr. Chairman.

Mr. Mayor, you do have a very vibrant, beautiful city.

Of course, I know you understand we are not appropriating more for defense than the President is requesting. You are well aware of that?

Mr. **Hudnut**. Yes, sir.

Mr. **Jenkins**. Second, I note that you properly stated that we have to look at entitlement programs. You advocate the possibility of looking at reduced social security benefits through reducing the cost-of-living increase. Is that correct?

Mr. **Hudnut**. I am trying to slow everything down which would mean that all of the reductions in benefits would be equal.

Mr. **Jenkins**. I know, but really when we get right down to the plain language of it, when we make the vote, we are reducing the monthly benefit of social security recipients by reducing the cost-of-living increase. Isn't that correct?

Mr. **Hudnut**. Well, Congress indexed all of this, and I am not sure that was a great service to the country, and it all has to be slowed down and dehitched.

I don't want to, with all due respect, be put in the position where it looks as though I am advocating reductions in social security benefits.

We have to slow down the rate of growth and the increase in Government spending.

Mr. **Jenkins**. I think I agree with you.

One other inquiry, I notice you indicate 120 condominium units have recently been purchased and that fascinates me because of the building crisis in my area.

Are these high-income, moderate, low-income, or what are they?

Mr. **Hudnut**. They are between $40,000 and $55,000, and the average might be $45,000.

Mr. **Jenkins**. How were those constructed? Were there any Federal financing guarantees?

Mr. **Hudnut**. They are not constructed yet. Second, this was a large, somewhat controversial write-down on the property acquired by the city some 20 years ago and the acreage was made available to a developer at a lower rate than what the city acquired it for when my esteemed predecessor, John Barton, was the mayor, I think.

That goes way back in the early 1920's, no, early 1960's, when Congressman Jacobs was a sheriff here in town.

Is there any FHA money in that?

Mr. **Krauss**. Yes, there is.

Mr. **Jenkins**. Thank you, Mr. Mayor.

Chairman **Rostenkowski**. Mr. Gephardt will inquire.

Mr. **Gephardt**. Thank you, Mr. Chairman.

Mr. Mayor, I appreciate your testimony. I am from St. Louis and a lot of what you had here today applies to my city as well.

Mr. **Hudnut**. I had the pleasure of testifying before your subcommittee in Washington this year.

Mr. **Gephardt**. Correct. Let me ask specifically what has happened in Indianapolis so far and what is likely to happen as a result of the cuts in the first round.

You said you have not lost a lot of employees. Could you give me some specific instances of how your city government has changed? Has CETA been decreased?

Have you cut back in any departments and if so, where? Could you give me some specifics?

Mr. **Hudnut**. We were planning for this a while back. I would hazard a guess, if you compared what we have now to what we had 3 or 4 years ago, we probably have 500 fewer CETA workers. In the parks department, which are interested in 275,000 trees in the public right-of-way in this county, they have reduced their manpower from 43 to 12.

As may be the case in Missouri and elsewhere, they come from the State.

In terms of reductions, do you want dollar figures, sir? If you add up what we anticipated for 1982, it would be, say, in the neighborhood, if I can read this writing, $47 million, and 12 percent off of that would be $4.1 million, leaving us with $43.1 million that goes to all these different programs, whether you are talking about CETA or planning and zoning or air pollution or housing programs and so forth.

Mr. **Gephardt**. In this second round of cuts, we face a deficit that some say for 1982 will be $100 billion, and some say for 1983 will be over $100 billion.

It may be we can't get enough out of defense or entitlements to get the fiscal result that we need, and it may be that the Congress and the administration will think that there has to be another round of cuts in the discretionary spending, as unpleasant as that may be for cities like Indianapolis or St. Louis or other cities.

If we do have to make cuts again in those programs, could you tell me in order of priority which are the most important to you?

Mr. **Hudnut**. Yes, sir, I would hope that you wouldn't have to make further cuts and I say that as a supporter of President Reagan's program. I believe we must get deficit spending under control and we must have the tax cuts to reinvigorate the economy and do everything we can to increase productivity in the private sector.

It is unfair to criticize the President prematurly, and having said all that, I really think we should look elsewhere for the salvage we are interested in finding to balance the budget. If I had to rank the priority programs for the cities of this country, the first one would be general revenue sharing, followed by—I am talking about economic development programs now, recognizing health and human services does not come through many city halls—you would have to say community development block grants would be second and beyond that, possibly UDAG and EDA, but the No. 1 program is general revenue sharing and what really would be the best of all possible worlds would be if all the different grants and programs were rolled up into one general revenue sharing block grant and remitted back to these 39,000 localities on the basis of the same kind of formula that is used now to distribute the $4.6 billion which is the revenue-sharing program.

Revenue sharing is the first program. CDBG is the second, UDAG and somewhat housing, transportation, community housing development money, so it is hard to say. One, we are going to live with the cuts, and we will cope.

Two, we have taken a fair share of the cuts already in terms of what we are looking at in 1982; but if we have to take any more, we hope it would be everywhere else but CDBG and revenue sharing.

Chairman ROSTENKOWSKI. Mr. Matsui.

Mr. MATSUI. I would like to commend you and your city, because it is a very fine city, and it is somewhat similar to Sacramento, Calif.

The populations are very similar, and although we have a much more moderate climate, the cities do have a lot in common. I would like to commend you personally also for some of the comments that you have made over the past few weeks in terms of the devastating effects future cuts will have on the cities and States of this Nation.

It is very important from a bipartisan perspective, for people in leadership positions to begin speaking out if we want to forestall some of the impending cuts that we could see for the 1983-1984 fiscal year.

Do you happen to have a housing redevelopment agency in this unit?

Mr. HUDNUT. Yes.

Mr. MATSUI. The OMB has been talking recently about eliminating housing subsidies for section 202 projects, and second, putting the subsidized part of the rent on a voucher system.

Could you comment on these proposals at this time? I am sure that it is an issue that the Congress will have to face in the next few months.

Mr. HUDNUT. The Secretary of HUD told me we could look for probably about a billion-dollar-a-year drop in the total budget of HUD, and I am sorry, I have heard before that 202 is earmarked for demise, and I think that is unfortunate, because it helps not-for-profits for one thing and the elderly for another, and we have a good 202 project here and another one on the boards.

Mr. MATSUI. How many seniors are you now taking care of in the city, county, in the 202 project?

Mr. HUDNUT. I don't know.

Mr. MATSUI. It is in the thousands, though, I would imagine at this time?

Mr. KRAUSS. I do not have the figure.

Mr. MATSUI. You have also indicated in your opening statement your concern about resurfacing streets and other municipal services which I certainly appreciate because I was also in local government in Sacramento. We were concerned about our sewerlines and that kind of thing.

It is my understanding with these budget cuts and probably because of past activities, you have also not been able to take care of some of the infrastructures of this community, is that correct?

Mr. HUDNUT. That is correct. Probably the fundamental crisis urban America is facing in the 1980's is the decay of the infrastructure and I am sure you read the article in Business Week at the end of October on this and the impact of the cuts, the ironic impacts of the cuts, in terms of what they are trying to accomplish on economic development at the local and State levels.

Mr. MATSUI. Would you say if we eliminate, for example, block grant money and UDAG money and continue to reduce the budget, that you will have to eliminate some of your money that would normally go into repairs of the infrastructure in order to support the social-type programs? Do you have anyway in the future to address the repair needs of the infrastructure over the years? Have you been talking about that, your staff?

Mr. HUDNUT. The way that we will be remitted to is the way of bonding, and, of course, with interest rates being as high as they are, it is precarious to go to the bond market. We are planning to do that, probably in the neighborhood of $70 million, during this 4-year period in my administration, simply because we have no alternative. We do not have any cum funds left in the operating budgets, and in order to sustain the infrastructure, we are going to have to borrow money to do it.

Mr. MATSUI. During the first round of budget cuts which were for the first 6 months of this year, Gramm-Latta I and II, we did hear from mayors and other local officials, but we did not hear from all of them.

It would be my hope that you and others like yourself would come to Washington and really speak out during the fiscal year 1983 budget deliberations. I think it will be very important for Members of Congress to respond to this public opinion and public responsibility.

Mr. HUDNUT. Mr. Congressman, I appreciate the invitation.

The reason you did not hear too vociferously on the first round, and I don't know how you voted on Gramm-Latta.

Mr. MATSUI. I was with the losers.

Mr. HUDNUT. I would have been with the winners if I had been voting, was that we did not want to sound like the minute our objection was being gored, we were going to scream and if I may wear the hat of the president of the National League of Cities for a minute, which I was during most of this year, last March we said we would be willing to take what we called our fair share of the cuts, and that meant that we would be willing to let the Congress work its will on the President's proposals and we would not be very, very vociferous about Gramm-Latta, because we think the time has come to stop being Federal grant junkies and to stop going to Washington with a tincup in our hands, saying, "more," all the time.

We have got to restrain the rate of growth at the Federal level.

In the second round, you can squeeze too hard, and you squeeze the life. It is one thing to cut bone and muscle and another the vital organs.

Mr. MATSUI. Democrats did have a proposal that we offered.

It was about a $35 billion cut, equal to the Gramm-Latta proposal except it would have taken cuts in a different place, and in the out years it wouldn't have been as great.

I would hope the mayors will speak not only on their own specific cuts, but upon the entire economic program itself.

If the elected officials throughout the United States would have taken a look at the entire economic package, then perhaps they would have taken a different attitude and not looked like they are only interested in their own self-interest.

One of the reasons we are facing a dilemma today with these cuts for fiscal years 1983-85 is because of the overall program. The tax cut, $750 billion over the next 6 years, means that we have to make up additional revenues, either in tax increases or additional cuts.

That is one of the problems. The situation we are in could have been forestalled had we been a little bit more prudent in our tax cut proposal.

Mr. HUDNUT. All I can say in response is that I think it is important for those of you who occupy seats of position and power in Washington to look elsewhere than to 14 or 15 percent of the discretionary programs for these cuts and that is why I mentioned entitlements and defense.

There are a lot of us who are Government officials, and if I may just stick this in, there are a lot of us in Government who, every time we mail out a letter to a constituent or use the mails, we have to put a 20-cent stamp on the envelope, and I would sure like to know how much it costs the taxpayers for all of you to have the franking privilege, and I can say that as a former Congressman.

Mr. MATSUI. Thank you.

Chairman ROSTENKOWSKI. Mr. Bailey.

Mr. BAILEY. Thank you, Mr. Chairman.

Mr. Mayor, I want to add my voice to the others in admiration of you. I respect your courage and I also respect your objectivity.

One of the things that you said that caught my mind referencing private financing, what kind of shortfall are we talking about?

You said not only should private enterprise not be requested to be a surrogate to pick up where Government leaves off, but that they can't.

Now that "can't" is an awfully important assertion, I think. Can you expound on that a little bit?

Mr. HUDNUT. I think you would be asking the private sector to pick up too much. Recognizing they could pick up some, maybe won't. They have stockholders to serve and a profit to make.

Well, there are many of us that would wish that the private sector could give more than 0.015 percent to charitable earnings which is the national average, but you have to recognize we are in a recession and business is hard pressed.

The phrase not being a surrogate for Government, I think we have to recognize that Government has certain obligations beyond national defense and coinage, and that we must not shirk those responsibilities, and there are people to serve in keeping with the preamble of our Constitution, and we can't lay it all back on the private sector.

In the arts and many, many human service programs, the private sector is helping out and perhaps they are being challenged by Mr. Reagan's call for renewed spirit of volunteerism to do more.

Mr. BAILEY. I happen to identify very strongly with what you said because you hit at the core issue and what philosophically is going on in Washington, and from the administration, that is something to do with the role and function of Government.

Considering the things that you have just said, you have used words like tax expenditure and loopholes and center cities and some of the demand for services, huge demands by our system commerce, for example, so you talk about a concept like reinvestment.

Economic Development Administration plays a very important role, or it has in Pennsylvania, we have made terrific use of it in our district.

It is under assault and slated for out-and-out elimination, along with some of the programs in the Department of Labor, CETA, the training side, not the public service jobs.

General revenue sharing, we all share our commitment there.

On EDA, why do you feel strongly about that? You ranked that as your third most important priority?

Mr. HUDNUT. Well, as I have talked with mayors around the country, their big four have been CDBG, UDAG, CETA, and GRS.

We are going to live with whatever cuts come down, and we will show the world that cities can make it, and this city has a lot of strength and vitality.

If the curtain were brought down on EDA, we would lose $3 million right here.

The point that is sometimes missed by the budget cutters is the way in which public sector money can be used in the private sector and can produce jobs.

Mr. BAILEY. Going back to some of the things you said earlier, cutting a program like EDA, and you used the words especially during a time of recession talking about volunteerism, you are really saying it is counterproductive in terms of your tax base problems. It is a counterproductive, an antisupply side move on the part of the Federal Government.

That is basically what you just said.

Mr. HUDNUT. Yes, I would feel that way about EDA, UDAG and CDBG and CETA.

Have the communities use GRS for public safety and public works.

We need to increase productivity in the private sector; and if the Northeast is going to be saved, it will be because of the economic development that occurs there.

I was asked by a reporter in Detroit if I thought that the cities in the Northeast were going to become ghost towns, and we cannot let that happen and the Federal Government has a role to play in keeping that from happening.

Chairman ROSTENKOWSKI. Mr. Hiler?

Mr. HILER. You have said that you think that the Federal Government spending as a percentage of the gross national product has to continue to come down?

Mr. HUDNUT. I don't recall mentioning that, but if you infer that from my remarks, I would be glad to let the inference stand.

Mr. HILER. OK; and you think in terms of bringing that percentage down, it needs or we need to look at the other 85 percent of the budget which includes defense and entitlement programs.

Mr. **Hudnut**. And of course, a $100 billion in interest on the national debt.

Mr. **Hiler**. A big chunk.

You made one reference to cost of living; you were saying that we shouldn't have a government that gives out benefits at a faster stream than the taxpayer's ability to finance through his own ability and increase in income?

Mr. **Hudnut**. Yes; I think that is true. Put it this way: as a working person in America who gets a check every 2 weeks, I know how much my wages go up during the course of a given year, what is negotiated for me if I am in a union, and so forth, and I am saying, wouldn't it be better to use that as an index rather than the CPI which has some artificiality built into it, and the Reagan administration is beginning to look at this, and I would encourage you to look at it.

Mr. **Hiler**. I think you also mentioned that there is a tremendous need for Government, and I think you were referring to the Federal Government, about being forced to constrain ourselves in our own spending, whether it be the cost of running the Congress or the cost of running the Government, as an example, leadership, the amount of money we would not save on the frank is not tremendous but very symbolic.

Mr. **Hudnut**. Very symbolic.

Mr. **Hiler**. OK; some figures my staff dug out last week, and you talked about EDA and maybe you can tell me whether you think this sounds right, that it costs $60,000 for 1 job year through EDA to create 1 job year.

Do you think there could be a better way to do it?

Mr. **Hudnut**. Yes; if that is the case, and I am sure probably your figures are correct. Therefore, you reduce me to saying that is too high. I don't know whether that is true here. We argue this all the time in our CETA program here, and the private industry council program, whether or not the cost of processing one person into a productive job in the private sector is too high and is it worth it.

I do think we have a problem with the structurally unemployed in urban America and we have to get at that job, and maybe EDA is not the best way to do it, but if the investment of public and private capital can leverage jobs, then conceptually the idea has validity, but it is just in terms of how it is implemented.

Mr. **Hiler**. Do you feel favorably toward an urban jobs and free enterprise concept?

Mr. **Hudnut**. Yes; I hope you all will pass Kemp-Garcia.

Maybe you all can do it on a pilot project basis, and also I am sure you are aware that there are problems in various different States with their constitutions that might make it unconstitutional in a State to segregate out a small island where there might not be the same kind of equity of tax treatment.

That is a serious problem.

Mr. **Hiler**. If there could be 435 pilot projects, it would probably stand a good chance.

Mr. **Hudnut**. You could start with Indianapolis.

Chairman **Rostenkowski**. Thank you very much, Mr. Mayor.

Your testimony has been most rewarding, and we are grateful to you for your participation.

[The prepared statement follows:]

STATEMENT OF HON. WILLIAM H. HUDNUT III, MAYOR OF INDIANAPOLIS

Mr. Chairman, Members of the Committee—I am Bill Hudnut, mayor of Indianapolis, and I appreciate this opportunity to discuss with you the impact of federal budget cuts on our City, and to explain some of the things I see coming in the future.

There can be no question that we are in an age of transition that will require what might be called creative frugality from locally elected officials. But before I get into some of the exercises in creative frugality we are undertaking in Indianapolis, please allow me to share with you some thoughts on the budget cuts to date.

As you know, two-thirds of the first round of cuts fell on state and local government. City government in Indianapolis is going to survive those cuts fairly well, although it is hard to put a finger on the broader impact of those cuts on those in need.

Our workforce is down in City Hall by about 12½ percent from a year ago.

Some of our staffs are at about one-half of their authorized strength (Department of Transportation).

Next year, another department (Department of Parks and Recreation) will have only 50 percent of the purchasing power it had in 1977.

Wage scales for remaining city employees are far below the CPI of the past few years.

We are not resurfacing streets in the volumes of the past.

Community Centers have had to close.

Housing and commercial rehab work have been scaled back in some areas.

Police car purchases and other routine equipment expenditures have had to be delayed or cancelled.

So we have had to tighten our belts, but by and large, we are not experiencing the enormous lay-offs and service curtailments evident in other cities, and we are proud of that fact.

What concerns me today are future proposals.

The cities of America have taken their fair share of the budget cuts. And we are supportive of the President's efforts to rein in federal spending and reduce onerous taxation and regulation. But we hope the President and the Congress recognize what fairness is all about and will begin to look to the 85 percent of the budget which largely escaped the budget axe earlier this year.

For instance, defense expenditures and the entitlement programs.

The need for a stronger defense is readily evident after a decade of neglect. But in such a massive budget, no one can convince me that waste is not a problem. It is hard to fathom the massive cost overruns which accompany all of our advance weapons systems. It seems to me that strengthening our military capacity requires more than simply increasing expenditures by 7 percent per year in real terms.

And what about the entitlement programs? How about looking at tieing increased benefits to something like the average wage earners salary increase rather than to the CPI? Wage earners are not keeping up with inflation and have not for several years, yet they are paying the taxes which fund the entitlement programs. That does not seem equitable to me.

And how about the Congress passing the fiscal year 1982 appropriations bills so we all know where we stand?

Let me turn now to how we in Indianapolis are approaching the future. We are fortunate as a City to be blessed with hundreds of thousands of people who care very much about their town's future, and who are willing to work to ensure its continued growth. Businessmen, labor groups, church and civic organizations and a network of about 400 neighborhood associations all have contributed in the past, and will have an even greater role to play in the future.

We call all agree that economic development is the key requirement for any City to be healthy. Most government officials give the concept to public-private cooperation a lot of lip-service, but in Indianapolis, we think it is a concept very much worth pursuing and, as you will hear from other witnesses, the civic pride needed to make it work is very much in evidence in our business community.

The beautiful new bricks along Market Street were funded 90 percent by private contributions.

The Indianapolis Chamber of Commerce studied the feasibility of expanding our convention center and tieing that into the construction of a domed stadium. When the results were positive, two foundations contributed $30 million toward the $70 million total cost, recognizing the economic growth this project will spur.

Private contributions have in large measure, brought about the development of the Indianapolis Sports Center, a new natatorium and a track and field facility—all on the IUPUI campus.

American United Life Insurance, Eli Lilly & Company, American Fletcher National Bank and several others have committed to multi-million dollar developments in the heart of our City rather than going to the suburbs.

The list really goes on and on. And, I am happy to say that we have adopted a similar approach to human service needs and social concerns.

When we experienced problems with police-community relations, 25 individuals representing a broad cross-section of the community agreed to serve on what came to be known as the Transelle-Adams Commission to recommend solutions.

When the schools of Marion County were desegregated by court order this school year, thousands of individuals on all sides of the issue took part in the PRIDE Task Force to see to it that desegregation took place smoothly and responsibly.

When problems were experienced in the Indianapolis Housing Authority, the Greater Indianapolis Progress Committee formed a special task force to study the problems and propose solutions.

The Community Service Council and United Way of Greater Indianapolis have agreed to my request that they do a complete evaluation of the multi-service center network in the City and draw up plans for a strong federation which would be responsible for oversight and delivery of human services in this area.

These are the kinds of things that simply must continue to happen here and in other cities if urban America is going to prosper in this new era. Additionally, state governments will have to recognize the cities as full partners in the federal system and release them from the political and revenue shackles of the past. If the cities are to fulfill the responsibilities they have, they must be given the financial wherewithal to do so—something very few cities now have under existing state laws.

Finally, let me say that I am optimistic about the future of the cities. The creativity, energy, knowledge, expertise, experience and vision required to build toward a better tomorrow are in abundance. There is a renewed interest in urban living demonstrated most recently just a few blocks from here when 120 condominium units were snapped up in just two days even though not a one of them had been built. Neighborhoods all over our City, and in many others, are experiencing a rebirth and renewal primarily as a result of private individual initiative.

To be sure, there are many trouble spots ahead, but as historian Arnold Toynbee was fond of pointing out, civilization became great by overcoming challenges. And there is no doubt in my mind that our great cities will become greater by facing and overcoming today's challenges.

Thank you.

Chairman ROSTENKOWSKI. Governor Mutz.

Welcome, Governor. We are pleased to be in your State and look forward to your participation in these hearings.

STATEMENT OF HON. JOHN M. MUTZ, LIEUTENANT GOVERNOR OF INDIANA, REPRESENTING HON. ROBERT D. ORR, GOVERNOR OF THE STATE OF INDIANA

Mr. MUTZ. Thank you very much, Mr. Chairman.

Because of a schedule conflict, I am representing Governor Orr as well as myself today.

Governor Orr directed a letter to you, and if you would allow me to, I would like to read that letter and then give the testimony which includes some comments from key department heads who administer both social service and other programs in the State of Indiana.

[The letter referred to follows:]

OFFICE OF THE GOVERNOR,
Indianapolis, Ind., December 7, 1981.

Hon. DAN ROSTENKOWSKI,
Chairman, Ways and Means Committee,
House of Representatives, Washington, D.C.

DEAR CONGRESSMAN ROSTENKOWSKI: Because another commitment prevents my appearance, I am unable to welcome you to Indiana though I am greatly pleased that Lt. Governor Mutz can represent me.

I am fearful, however, that I could not show you true Hoosier hospitality anyhow, for I wonder why you are in Indiana rather than in Washington?

You are one of a handful of key leaders in the House of Representatives. Your position as Chairman of Ways and Means provides you with immense power to influence policy decisions. For that reason, you do us honor by your presence.

At the same time, why should you be in Indiana when there is vital work to be done in finally completing the seriously delinquent appropriations process in Washington?

You seek information on the effect of reduced federal appropriations on the delivery of important services in Indiana. I wish we were able to tell you what those effects are. In the absence of confirmed, legal appropriations by Congress, we remain in the dark on what funding we my expect.

Until Congress funds the budget it authorized last August, we cannot respond with accuracy.

Would it not make more sense to be in Washington? There, leadership is needed to finally bring the appropriations process to a successful conclusion. Forgive me for asking why Congress pays no heed to its September 39th appropriation deadline, which Congress itself imposed upon itself?

Even though the House has passed many of the appropriations bills, it levels have so far exceeded the President's requests and the Senate's figures that the process really is stymied. We need to get it moving again.

In addition, the block grant flexibility advocated by the President was greatly limited in the House. More flexibility should be given.

Please do not take offense at my candor. Consider it my own answer to what I presume is the true purpose of this hearing, which is to ask how Congress can assist state and local government in meeting their responsibility.

Thanks for coming to see us, Mr. Chairman, but remember that first we need our fiscal road map from the Congress.

Sincerely,

ROBERT D. ORR, *Governor.*

Mr. MUTZ. The testimony that I am about to give is brief in nature, and I hope will stimulate some questions from the gentlemen who are here with us.

The delay in appropriations cited by Governor Orr causes havoc in our State budget planning process.

For example: The planning for title XX programs starts early each year for the State fiscal year, which begins July 1. Contracts must be in place when the new fiscal year begins. However, the contracts must anticipate Federal funding, although the Federal fiscal year begins October 1, 3 months after our own.

Even though we are now almost halfway through some of these contracts and into the 3d month of the Federal fiscal year, Congress hasn't determined how much the Federal Government will pay for those programs.

This makes guesswork out of careful planning. The people who depend on these programs don't need guesswork. They need programs planned with solid information.

Of course, the tighter the restrictions on a program, the more urgent the need for having the budget on time.

But timeliness is not the only issue. In the next few minutes I will discuss steps already taken by State government to embrace the new federalism, how cuts in funding are affecting some programs and, finally, a critical issue for State government, the need for flexibility in managing the programs.

We believe that the new directions proposed by President Reagan contain new opportunities for State government to plan its own strategy to meet the needs of its citizens.

When the concept of block grants to States was being discussed in serious tones last spring, the State of Indiana began to plan to take responsibility for the old Federal categorical programs. It was assumed that we would have more flexibility to operate the programs under the then-proposed 25 percent reduction in Federal dollars.

Governor Orr formally established the Indiana block grant management program under the direction of a full-time manager and provided staff resources from a small State agency. The Governor also appointed the members of the Indiana Block Grant Policy Committee, which include the Governor, Lieutenant Governor, top legislative leaders and other decisionmakers in State government.

One of the most crucial ingredients was to provide for citizen contribution to the decisions that had to be made. Governor Orr created four bipartisan advisory task forces made up of citizens, local and State government officials and legislators. The task forces cover education, community development, human resources and health.

The task forces were instructed to hold a series of statewide public hearings to brief the general public providers of services and recipients of services as to the expected pending changes.

But the task forces were also instructed to listen. So far, the Governor's advisory task forces have conducted 17 hearings across the State. More than 2,000 people have attended these hearings and over 350 individuals offered their viewpoints in official testimony. Even more written testimony has been received. The task forces have made preliminary drafts of their reports and will present them in a few weeks.

The State of Indiana has opted into six of the nine block grants as of October 1. Although Congress has removed much of the flexibility for the programs first proposed by President Reagan, we feel our State will be able to manage these block grants with sensitivity to human needs.

The concept of block grants with fewer guidelines is very exciting to professional program administrators. They deal with problems close up. Theirs is not a rule book world.

I asked Dennis Jones, Commissioner of the Indiana Department of Mental Health, to comment on what the block grants could mean to his department.

He reported to me that the potential for melding the Federal and State dollars will present, for the first time, the opportunity to integrate planning, budgeting, review, monitoring, and fiscal and program standards.

Mr. Jones notes that multiple funding "pots", particularly in addictions treatment, have historically led to an extremely complex and schizophrenic role for the State and local providers. It is a shell game, with money under some shells and not under others.

He writes: "We now have a tremendous opportunity to bring meaningful planning and management functions together."

He finds this approach infinitely better than the old way of applying for categorical grants in language aimed at satisfying the peculiar nuances of the Federal funding source. Sometimes this was done to the detriment of the local program.

Indiana State government is philosophically in tune with President Reagan's goal of a solvent Federal Government. We see the need for spending cuts, and we have already begun reductions in several areas based on anticipated funds available.

For example, about 15 percent of the total title XX Federal dollars were withheld last spring from most contracts for centers for mentally retarded and developmentally disabled persons. These centers receive about 35 percent Federal funding, so the cuts amounted to a little over 5 percent of the budget for those programs.

The Indiana Department of Public Welfare has undertaken a series of program reductions in the three areas most affected by the Omnibus Reconciliation Act.

For example, the rolls of cases under aid for families with dependent children, AFDC, were reduced in Indiana by approximately 7,000 families on October 1. The caseload fell from 61,828 familes to 54,838 families. The families dropped from the roles were at the upper end of the income scale of those previously receiving assistance.

Some of the families had income from stepparents that had not been counted before. Other income had not been counted on dollar-for-dollar basis. Monthly savings total $932,000. Indiana is the only State to have fully implemented the mandatory changes in the six States covered by Health and Human Services, region V.

Because AFDC recipients are automatically eligible for medicaid, the reduction of monthly spending for this program went down by the same 7,000 cases, or $814,000 per month.

These two reductions will save about $20 million in Federal money the first year, and about $7 million in State funds.

Indiana's food stamp rolls were cut by about 1,100 families on October 1, when maximum incomes allowed recipients were reduced and strikers were declared ineligible for food stamps.

Total annual savings through this cut will be about $9 million, all of it in Federal money.

It's important to remember that the former recipients of these benefits, while not well off, retain some purchasing power, otherwise they would not have been cut from the programs. Those people without income or with very low income still receive assistance.

But Indiana Welfare Administrator, Donald Blinzinger, feels that the changes could have been made with even less pain and less trouble if the State had more flexibility in these programs. Mr. Blinzinger noted to me that Congress did not reduce the regulatory redtape for the administration of these programs in the way the President called for.

State governments take seriously the issue of flexibility in finding the best way to deliver programs. As it deliberates the budget, Congress should be more willing to give the States greater flexibility in all programs.

Generally, the Federal Government has no delivery system for programs. If it relies on States and local governments to deliver the programs, it should be willing to allow them to work within a general framework rather than very restrictive rules, regulations, and second-guessing. State governments should be partners with Federal Government, not slaves to a master.

We look forward to making the new federalism work. You have an opportunity to move the decision-making power of government closer to the people we all serve. We believe States can do a far better job than the Federal Government in some areas, if given the leeway and authority to innovate.

I know that you appreciate that these are tough decisions. But we look forward to making them, and we look forward to making President Reagan's program work for the benefit of all citizens of Indiana.

We are trying to do our jobs. With a Federal budget 2 months overdue and a continuing resolution expiring next week, you have a big job to do, too.

Thank you very much, Mr. Chairman.

I would be more than happy to respond to questions.

Chairman ROSTENKOWSKI. Thank you, Governor. I would like to point out that the House of Representatives, with respect to the Governor's observation on appropriation bills, has passed and sent to the Senate all but one as of Thanksgiving, and I have long been an advocate in trying to get the housekeeping of the Federal Government in order in the time limitations that are afforded to us.

My colleagues, I am sure, will agree, that the reason that we can be in Indiana is because the House is waiting for the Senate to react to the appropriations bills that the House has already sent over to the Senate.

I am sure you are aware, and I am sure Governor Orr is aware, it is the legislative branch of Government that has two Houses, the Senate and the House.

The reason we are here is, as you know, that the Government serves people. I remember when I was first elected to my seat in the House of Representatives some 23 years ago, I had the reputation of commuting to and from Chicago. I have been flying in and out of the city of Chicago for the last 22 years.

On my way home one day a professor from Ames, Iowa, the University of Iowa, suggested maybe the people of Washington shouldn't just read the Wall Street Journal, the Congressional Record, the New York Times, and the Washington Post, that they should get home once in a while and talk to the people, because that is actually who we really represent.

I take it that Governor Orr welcomes us but with mixed emotions.

I don't know that he likes us being in his State finding out from the people how we are governing in Washington.

This idea of a calloused approach to what human service is all about is not palatable here. We can talk about how much we are going to increase defense spending and talk about what we are going to be doing with respect to UDAG grants for the development of communities such as you have here in Indiana. But most of this year's budget cuts have actually fallen on the flesh and blood of people.

We are aware that many more cuts are going to be recommended out of the White House that will impact on the same people. The central question here today is how much is enough and how much is too much?

I think that, as opposed to looking upon us as not doing our jobs, I would expect a letter of commendation to members that could be doing nothing in Washington, waiting for a reaction from the other body, or not coming out and having people like you coming to Washington and giving us the benefit of your views about how Indiana is going to fare if we accept the recommendations of this administration.

That is what it is all about, and so I hope that your Governor does not look upon this as an intrusion but rather as a group of interested Representatives in Government trying to find out just how the effects of this budget are going to affect people.

Mr. Gradison?

Mr. **Gradison**. Mr. Chairman, in all due respect, I think the Governor is on to something. You are correct, of course, that the Senate is lagging behind us in appropriations, but there is one program under the direct jurisdiction of this committee which affects more people directly in America than any I know, and that is social security, with 36 million beneficiaries every month.

There is a program which we certainly could be spending our time on and were working on in a strong bipartisan effort to develop some way to salvage a sinking program. And when the word came down from the Speaker of the House that no long-term solutions of social security would be permitted to come to the floor for a vote, period, we stopped our work.

I don't think it is correct that the only business before the Congress and before this committee is the budget or appropriations. There are other programs which directly affect people, such as social security, in the very same way that you indicated, Mr. Chairman, directly in their lives and in a major way which requires much more attention than they are getting from this committee.

Chairman **Rostenkowski**. If the gentleman will yield, the gentleman is aware that the only reason we are at a stagnant point in negotiations in the House conference is whether or not we are going to extend the benefit cuts in social security.

We on the House side refuse to cut the benefits of the social security recipients presently on the rolls, and the Senate has taken a different view.

The Senate in social security changes recommended by the administration voted 95 to zero against the changes in social security.

I am one member on the Ways and Means Committee who will be sitting on a conference who feels there is going to have to be a long-term solution, but President Reagan has appointed a commission now that is going to report back to the Congress and to the Ways and Means Committee sometime in April.

I do not think that you are going to see Members of Congress moving with great haste until such time as that report is made available.

Mr. JACOBS. In the 13 months since Governor Orr was elected, how many trips has he taken to Washington?

Mr. MUTZ. With the exception of the inauguration, I believe there have been six times that he has been here.

Mr. JACOBS. Anything going on here in Indiana while he was there?

Mr. MUTZ. Of course there were things going on, and he was called in almost, I believe, in four of those six cases, he was called by the President himself or by members of the administration to be present to consult concerning the implementation of the various programs.

Mr. JACOBS. Were any of those trips while the State legislature was in session?

Mr. MUTZ. To my knowledge not while the State legislature was in session.

Mr. JACOBS. All of them have been since the legislature has adjourned?

Mr. MUTZ. I don't have a list of the Governor's travel schedule in front of me, but my recollection is that the majority of those trips took place after the legislature had adjourned.

Mr. JACOBS. Would you go back and ask him to submit for the record the number of trips and when he took them to Washington so we will know just how to evaluate his criticism of the committee for holding field hearings to find out what the impact of these cuts have been on real human beings?

Would you ask him to supply that for the record, please?

Also, do you suppose the Governor understands that the appropriations process of the United States House of Representatives is separate from the Ways and Means Committee, and has been since almost midway through the 19th century. It is unlike the State legislature.

Mr. MUTZ. I am sure he is aware of that. We discussed that matter.

The issue here, however, is the participants in this hearing, many of you are key participants in what finally will come down in a conference committee report between the two Houses.

Mr. JACOBS. Not so.

Mr. MUTZ. Little doubt in my mind that you will be the key.

Mr. JACOBS. I don't know of any member of the Ways and Means Committee who is a member of the committee that is determining the continuing resolution or the appropriations.

Mr. MUTZ. How many of you participated in that large conference committee program that took place between the two Houses?

Mr. JACOBS. None. You are talking about a reconciliation bill that was over 6 months ago.

Mr. MUTZ. That was the last really key piece of legislation that dealt with spending?

Mr. JACOBS. Do you have any idea why the Senate has not passed any of the appropriations bills before it, why it has not completed its work on any one of them?

Mr. MUTZ. You are in a better position to answer that than I am.

Mr. JACOBS. No; I am really not, if you read the Indiana Star or the Indianapolis Star or watch television news.

Senator Baker has stated the reason they haven't acted is because they don't know yet what the President's recommendation is for a budget.

They can't get out of this administration what he does want. I am quoting the Majority Leader of the U.S. Senate. That is why they haven't acted on it.

Mr. MUTZ. I think, Congressman, the key question here is the actual concept of the appropriations bill is still not known to us in State government. That is the key point.

Mr. JACOBS. The key man is President Reagan and that is why they say they are not determining any level of appropriations. It is not that they have not passed one. They haven't taken them up, because Senator Baker says they don't yet know what President Reagan wants. They want to do what he wants but I am not sure they know what that is.

Mr. MUTZ. I am not sure we will accomplish a lot by debating that issue back and forth.

Mr. JACOBS. I have accomplished everything I wanted to.

Mr. MUTZ. Congressman, the critical question still is that—and I know you are experienced in State government in the past—unlike the kind of situation that we deal with, where a State agency knows what it has to work with and in turn can tell a local service provider what they have to work with, we are not in that position here in Indiana still at this point in time and that is the critical question.

Mr. JACOBS. The final point, Mr. Chairman, and this is only a point that I think ought to be spread on the record as to whether there is usefulness in finding out what the people of this country are experiencing as a consequence of the actions of Government; whether or not it is proper, as Alexander Hamilton said, that here, the people rule.

I will point out to you that we were privileged to have lunch with senior citizens today at the Near East Multi-Service Community Center, and we learned some senior citizens are being turned away for hot meals in that program.

It is useful to learn that.

Perhaps comparing the fact that they are being turned away with the fact that President Reagan determined that every penny that was being spent in the Pentagon, including those that Mayor Hudnut referred to, including subsidizing $3 filet mignon dinners for high-ranking officers, ought to be spread on the record. I think this committee is bringing back to Washington some very, very useful information about the flesh and blood answers, not merely public officials theorizing about what ought to happen. This is important, I think, particularly when the theorticians are getting along without anything except increased luxuries for themselves.

If you care to comment on that?

Mr. MUTZ. As I indicated in the testimony that I read here, the cuts as advertised certainly, if you can believe that is what will be the result when all the pieces are finally put together, are ones that we can very handily live with in Indiana, but——

Mr. JACOBS. Who is the "we" you are referring to, the people that were turned away for a hot meal today, or you and me?

Mr. MUTZ. I am referring to those that have to administer programs at the State and local levels, and I am referring to the fact, in general the actual amount of cuts in such interesting programs as the support for community and mental health center, for example, because of the way we have handled our appropriations program here in Indiana, the actual cut is not what it seems to me from the national publicity, but rather in the 4½- to 5-percent area.

I would be the first to agree when we are delivering programs to human beings that any cut is something we would like to avoid and I firmly believe that, but the other side of this issue is the question of whether or not we are once again going to find some sanity about how we balance the budget at the Federal level and how we relate the percentage of income that is taken away from people with these particular needs.

So what I am really suggesting to you is that, sure, I would like to avoid budget cuts if we could do that, but I am recognizing, as has Governor Orr, that budget cuts are necessary, and sacrifice will be necessary for millions and millions of people, people as well as government officials that have to do this job.

I am saying to you, the budget cuts in Indiana do not impact us nearly as severely as apparently they would seem to, based on the kind of statistics that I have seen in the national media.

Mr. JACOBS. Do you find any sanity in spending $5 billion to bring obsolete battleships out of mothballs, battleships that were described by Senator Goldwater as sitting ducks that would go to the bottom of the ocean in the first 5 minutes of any real conflict?

Do you find any sanity in that at the same time the people are being told there is not a hot meal for them, people in Indiana?

Mr. MUTZ. One of the basic functions of the Federal Government is to provide a strong national defense. Now the issue is not one that I can answer, because my job is to deal with the administration of programs that are delegated by our Constitution to State and local government.

Your job is to deal with the defense appropriation requirements.

Mr. JACOBS. Your job as a citizen is to make a judgment whether it is sane to use your tax money to bring $5 billion worth of obsolete battleships out. Were they in a movie President Reagan was in?

Mr. MUTZ. It is very clear, it is one of those situations in which the national defense posture of the United States is one that must be perceived by our allies and enemies to be a strong one, and I would say in this particular case that the oversight responsibility as to what is the right expenditure for national defense is one that rightfully falls within the Congress of the United States.

Mr. JACOBS. The next time you and the Governor come to visit me in Washington I will welcome you just as I always have before. I won't tell you you ought to be working back home.

Chairman ROSTENKOWSKI. Mr. Jenkins.

Mr. JENKINS. As one of the Members who supported many of the reductions that the President has asked for, I want to ask some questions, first of all, dealing with those cuts.

Are you aware of anyone in your State who has been hurt by any of the reductions thus far?

Mr. MUTZ. It depends on how you define——

Mr. JENKINS. Let me use the term "truly needy."

Mr. MUTZ. At this time we have not received actual information that would indicate a real strong effect on the truly needy that you have described. That is not to say that there are not some people who have been affected by the cuts, no question about that.

Individuals have been affected as well as groups, but at this point I do not see it cutting into the truly needy.

Mr. JENKINS. Thus far you don't think there has been any substantial harm done to those, to use the term, "truly needy people." Is that correct?

Mr. MUTZ. That is correct.

Mr. JENKINS. If we make additional cuts of another 4 or 5 or 6 percent on top of the cuts that we have just enacted, would you see that as affecting any of the truly needy? We will be voting on that in the next 2 weeks?

Mr. MUTZ. If those cuts are to be across-the-board cuts, that is, that apply to virtually every area that you fund at the Federal level, if you handle it that way, then I would doubt that that has much of an impact, particularly if the amount is 4 or 5 percent, which is what you just said.

Mr. JENKINS. You want us to cut national defense 5 percent?

Mr. MUTZ. I am suggesting, if you make it 12½ percent, then we as State government will have to take another look. There is no question about that, and at that particular point we have to recognize that part of the New Federalism is more than just shifting responsibility from the Federal Government to the State government, and also part of the New Federalism is more than just cutting the budget at the Federal level and suggesting that supply side effects will work, but it also says local and State government must assume some responsibility for the operation of those programs in providing the money to pay for them.

I am suggesting to you, if your cut is 12½ percent, then State government and local government will have to take a careful look at those priorities and whether or not it is appropriate for us to provide additional revenue at the local level.

Mr. JENKINS. Let me see if I understand you correctly, because I think a lot of people misconstrue the total budget of some $700 billion that we are talking about. One hundred billion of it is in interest. We can't reduce that, this year. We will have to pay the interest, correct?

Mr. MUTZ. I agree with that.

Mr. JENKINS. Roughly $200 billion is going out in social security payments. You are not advocating the reduction of existing social security checks, are you?

Mr. MUTZ. No.

Mr. JENKINS. Roughly $200 billion goes to defense. You are not recommending that that be cut, are you?

Mr. MUTZ. I believe that there are areas in a budget of that size that surely can be cut.

Mr. JENKINS. You think that we should cut Reagan's defense request?

Mr. MUTZ. You folks are on top of this kind of budget money. I have been a budget maker for 13 years, and I am convinced the way you contain growth of Government is to limit the amount of money you spend.

I have yet to see a budget that couldn't be cut 5 or 6 percent without jeopardizing a program.

Mr. JENKINS. Those three items make up about $500 billion, and the rest of the Government is operated on the remaining $200 billion, which is the part that we are getting ready to cut again.

Can you stand additional cuts in medicaid?

Mr. MUTZ. Yes.

Mr. JENKINS. Without hurting anyone?

Mr. MUTZ. Yes; provided you give us the flexibility as to how to administer those programs.

Mr. JENKINS. How large a cut do you think you can take in your State in the medicaid Federal portion without hurting any of the truly needy?

Mr. MUTZ. You mean in a percentage form?

Mr. JENKINS. Yes.

Mr. MUTZ. As I said, 4½ to 5 percent is one we can live with.

Mr. JENKINS. Likewise in revenue sharing you think you can take a 5-percent reduction?

Mr. MUTZ. That issue is a little different because that is a funding source for local government. State government does not depend on revenue sharing at the present time and that issue revolves very clearly around how we allow local government how to finance itself.

The legislature determines how it is funded, and if Federal revenue sharing were to be removed from the income source that local government has to work with, then we would have to give local government another option as to how to obtain the money it needs for fire and police protection, and there is little doubt that everybody, regardless of whether they are liberal or conservative, expect local government to provide basic services, and those things would be jeopardized if all the revenue sharing were certainly withdrawn from the stream.

Mr. JENKINS. Is the State of Indiana in a financial situation where you could pick up the slack to provide those basic services if we eliminate revenue sharing?

Mr. MUTZ. Not with State funds. The slack would be taken up by another alternative revenue source provided for at the local level, probably a local option tax of one kind or another, nonproperty tax.

Mr. JENKINS. Something in addition to an increase in property taxes?

Mr. MUTZ. Right.

Mr. JENKINS. What is your sales tax?

Mr. MUTZ. Four percent sales tax in Indiana.

Mr. JENKINS. I know my time is about to expire.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Gephardt?

Mr. GEPHARDT. Governor, there seems to be an implication in the Governor's letter. Governor Orr, and in your testimony, that this hearing is for political purposes, and I want to assure you that all of the members are not here to politicize.

The budget issue, as Representative Gradison pointed out, wasn't all partisan and many Democrats voted for both the tax bill and the budget bill.

We all have to face reviewing a second large round of budget cuts. All of us in taking this office and serving on this committee have a duty to try to make decisions on tax and budget matters that do affect people, and I assure you that we are here in a genuine purpose of finding out the effect of the programs so far so that we can make good decisions about the future of the program.

Most of your testimony was about the New Federalism and the need for latitude on the part of State officials to run programs, and I am sympathetic to that. There is a good deal to be said for that.

I guess the greater question is, if the New Federalism does include even deeper cuts, even to the extent of 12 percent, what would your position be, the State of Indiana's position be? Would you look for revenue sources at the local level to try to supplant some of the lost revenue, or do you feel you could take another 12-percent cut?

Mr. MUTZ. If you are talking about the loss of funds that would affect basic services that local government is expected to provide, police, fire protection, and sanitation, there is little doubt in my mind that we would be willing to recommend to the general assembly that some alternate funding sources be provided, if the revenue sharing dollars were taken out of those programs.

In the case of other kinds of locally provided services partly funded locally and part with State and Federal funds, that combination, each of those programs would have to meet muster in terms of its acceptance by our general assembly and by local officials who were concerned about it, and I am sure that a very careful kind of prioritizing process would take place and if the amount of reductions that you anticipated were in excess of 12½ percent that was described earlier, once again the State of Indiana would have to take a very careful look at whether or not we want to supplement the amount of revenue we have available.

We have a State that is very fortunate in that we have not had to raise taxes in recent years in order to meet budget deficits. We are a balanced budget State, and are mandated by our constitution to be one, and because of careful management in the past, unlike the States of Ohio and Illinois and others, we have not had to raise our major tax sources in this State, and are still living within our income, and that means in order to implement the New Federalism, we have a lot of flexibility as far as the future is concerned.

Mr. GEPHARDT. What is the level of your budget at this point, the dollar figure?

Mr. MUTZ. If you include the Federal money and the other odds and ends, around $9 billion on every 2-year basis.

Mr. GEPHARDT. How much have you sustained in terms of the budget cuts from the Federal Government?

Mr. MUTZ. The budget cuts totaling everything, including some moneys that go directly to certain units of Government not part of that amount, is about $260 million in Indiana. That is an estimate that we have made and is as close as we can come at this point.

In terms of actual impact on the State budget, for example, in the case of the block grants, that area is about an impact of $20 million and in the entitlement area there are other figures.

Mr. GEPHARDT. That is $260 million so far out of a $9 billion budget?

Mr. MUTZ. Part of that is not apples and apples. There is a portion of that $260 million that goes directly to units of Government that we don't get involved in.

Mr. GEPHARDT. Another 12 percent cut affecting all of those programs, it would be that much more in addition to the $260 million, and that is the point at which you would want to take a second look and decide whether or not you could favor those budget cuts?

Mr. MUTZ. We would favor the budget cuts as a philosophical matter.

Mr. GEPHARDT. No matter what they are?

Mr. MUTZ. You are asking me to make a carte blanche statement and I can't do that.

As a general rule, if the budget cuts were within the bounds of obtaining a balanced budget, we would support those, because we believe the basic concept is in fact to return power and responsibility to local government, and that is an important kind of concept, and when you have responsibility, one of the things we always say in Indiana, the pleasure of spending the money should be accompanied by the pain of raising it.

We believe in that here in Indiana.

Mr. GEPHARDT. Would you be in favor of us cutting off all Federal programs at the State level?

Mr. MUTZ. Certainly not all at one time.

One of the important points that Governor Orr made in one of his visits, one of the contributions that he made to the process was the phasing process that takes place in the implementation of block grants.

Had it not been for his insistence that that section be included in that statute, and I realize some of you were aware local government can't move from one system to another, but in this particular case, we can do a lot of things in Government, given enough time to make them work.

Mr. GEPHARDT. Some States sustained a lot of revenue loss because their State tax systems had been piggybacked to the Federal system.

Did that happen in your case?

Mr. MUTZ. No; that did not happen, but there will be an impact on our State budget if we impose such things as accelerated depreciation, 25 percent investment, tax credit for research and development, and odds and ends of those kinds, and we tried to anticipate that and so in the revenue information case that we are working with, we anticipated that all those things would be implemented and become part of the Indiana Code, and with one exception, the so-called marriage penalty that you incorporated.

There is no marriage penalty in the way we calculate the Indiana tax.

Mr. GEPHARDT. Thank you.

Chairman ROSTENKOWSKI. The Chair would like each member to re-examine his obligation to be brief. We are now running 20 minutes behind schedule.

Mr. Matsui?

Mr. MATSUI. I would like to follow up on Representative Jenkins' line of inquiry.

You talked about medicaid and indicated if we had a 5- or 6-percent additional cut as part of the budget reconciliation process or the continuing resolution which is coming up on December 15 the State of Indiana and the people of Indiana would not be impacted adversely.

Did I understand that correctly?

Mr. MUTZ. That is what I said. I said, if you give us enough flexibility, we can live with it.

Mr. MATSUI. I am assuming that during the next 8 days or so we probably will not be giving that flexibility, so those 5- or 6-percent worth of cuts will come with the system currently in place.

Do you feel perhaps it would have some negative impact on your people?

Mr. MUTZ. It is a little difficult, Congressman, to estimate that.

I suppose any time you take a new chunk of money after sustaining the reduction that took place in the first period, there will be an impact on some human beings.

Mr. MATSUI. Do you know how many people in your State currently receive medicaid?

Mr. MUTZ. I can't give you the figure.

Mr. MATSUI. Do you know how many were impacted by the first round of cuts?

Mr. MUTZ. Yes; that is in my testimony.

Let me doublecheck the figure, about 7,000 families were dropped off of the medicaid rolls.

Mr. MATSUI. What is their source of primary care now then? Would that be county hospitals or what?

Mr. MUTZ. A combination of things.

Mr. MATSUI. I was under the impression that was aid to families of dependent children.

Mr. MUTZ. The way the system works is, if you are eligible for AFDC or the other three categorical welfare programs, you are automatically on the welfare program or medicaid program.

Mr. MATSUI. Where do these people go? Were they really people that shouldn't have been treated in the first place? Is that what your are saying?

Mr. MUTZ. I suppose it is our contention that we have a number of situations where there are people who probably should not have been on certain of those rolls, and we have tried to implement programs that would clean up the situation.

I don't like that term, because it implies that everyone is a cheat on welfare and that is not the case. Ninety percent of the people on welfare do not want to be on it and would not if they could do otherwise.

Mr. MATSUI. 7,000 is probably that 10 percent that shouldn't have been on.

Mr. MUTZ. That is a reasonable assumption.

Mr. Matsui. These 7,000 really didn't need treatment anyway. I want to have an understanding of this.

Mr. Mutz. What you are trying to do, of course, is to put me in the corner of saying there isn't one person in that group of 7,000 who——

Mr. Matsui. No; I am not. There may be 500.

Mr. Mutz. There are ways within our society to care for their medical needs.

Mr. Matsui. Private foundations?

Mr. Mutz. You have your hospitals at the county level that provide service on the basis of need, and those particular hospitals continue to provide that service and would do so.

Mr. Matsui. The total cost may not change too much; right?

Mr. Mutz. The assumption you have to deal with in the medical care field, that is, any time you have a program that is paid for by an independent third party who is not a particpant in the negotiation of the service that is being provided, you tend to have abuses in the system.

One of the things I advocate in terms of human service development is a separate evaluation from the actual delivery of the services.

In other words, if you have a person coming into your human service provider program, you should be finding an independent way to evaluate the real needs of that human being and then to buy that service from the service provider that can produce it with the best quality at the best price.

What I am suggesting is that this Federal-State partnership has tended to cause institutions to perpetuate themselves rather than focus on the most important person in the process, and that is the recipient of the program.

An evaluation would provide us the mechanism for getting the highest quality service at the best price. Then when a service is no longer needed, the institution that provides it would no longer exist, and that kind of system is one which I think has caused to some extent the large expenditure level, particularly in the health care field.

Chairman Rostenkowski. The time of the gentleman has expired.

Mr. Matsui. One more question, if I may, I want to finish my line of questions. I am sorry I can't follow up on the medicaid situation, but on page 6 of the witness' testimony, I do want to get further information.

In your next to last paragraph, you didn't read that, so I am assuming that you have decided not to adopt that, and that is not really part of your record, where you indicated the Democratic leadership has been manipulating human emotions?

Mr. Mutz. I did not read that in the interest of time.

Mr. Matsui. You really do adopt that statement?

Would you care to elaborate on that a minute? What emotions are being manipulated?

Mr. Mutz. Congressman, I in no way questioned your motives in being here.

Mr. MATSUI. You have questioned our motives. This statement here is an obviously shrill statement. I am surprised you made it in the office that you hold, but you made it.

Mr. MUTZ. The type of process which takes place here is one which tends to undermine the philosophical approach that the President takes.

Mr. MATSUI. Don't you believe in a two-party system?

Mr. MUTZ. The system is not near as simple as you would have us believe. The assumption you make is that if the Federal Government withdraws money from a given program, the people out there will no longer get any services. That is not necessarily the case at all.

Mr. MATSUI. That is an assumption you are making. We are here to find out exactly what impact the President's economic program has had on this State. You told me everything is coming out very well, and Indiana is a great State with people who are not being impacted, except maybe the 7,000 people who are off medicaid. I will take that message back with me.

I am not questioning your motives. You may very well be telling us the truth. I just hope that you don't question our motives.

Chairman ROSTENKOWSKI. Mr. Bailey.

Mr. BAILEY. Thank you, Mr. Chairman.

Governor, I will also be brief in the interest of time. This morning, we visited the Near East Side Multi-Service Center. You are very much concerned about social responsibility and also about effectiveness, and I believe you are sincere with it, targeting that social welfare penny and getting it to the people who need it.

You made a statement about a 5-percent cut generally in programs, saying you didn't feel that programs would necessarily be jeopardized, and you felt that could be done; 1980, 1981, title XX of the Social Security Act, 27 percent of their 1981 budget, base figure, $999,863.

Title XX of the Social Security Act, 33 percent of a base figure of $809,000 equals about $266,970.

Indiana Department of Mental Health, page 4, you spoke about 15 percent of the total, title XX Federal dollars were withheld last spring from most contracts for centers for mentally retarded and developmentally disabled persons. These centers receive about 35 percent Federal funding, so the cuts amount to a little over 5 percent of the budget for those programs.

If you compare the totals of those base figures and take proportionate percentages for them, you are talking about a difference not allowing for inflation, cuts in the mental health area in excess of 10 percent.

If you use a 10-percent, inflation-adjusted figure, of course, it is greatly exaggerated. Net increase 27 percent to 33 percent, it is a slight $3,000 net decrease, the proportional increase in Federal funding compared to the decrease in State funding which tells me that somebody is talking about a philosophic commitment to the President's program that is not being honest. It tells me what you have done is that you have decreased the State dollars, done something somehow to pick up the percentage of money from the Federal Government. Because the net increase, when you compare those two sources, shows that all you really did, you got hit with a block grant, and all you did was you went out there and cut the State funding, but you somehow, I don't know how, went and got more Federal dollars.

That shows no commitment. There is no philosophical commitment to the President's program.

Mr. MUTZ. Congressman, you are looking at this as an isolated case, and of course, the whole key to flexibility in terms of Federal dollars or any dollars, are in the way we are able to move those dollars around to best use them to meet the needs.

That is what is clearly going on.

Mr. BAILEY. No, sir, that is not what is going on. You have voiced a very strong commitment. I would challenge you to go over this arithmetic, and I don't want to be unfair to you, but the arithmetic here is very plain.

What you just said about putting a burden on the center to do their arithmetic in a rejuggled fashion and come out with more resources for mental health. Those people can't help themselves.

Mr. MUTZ. I wouldn't agree with that.

Mr. BAILEY. They are victims of natural forces beyond their control.

Mr. MUTZ. The people who run the local agencies certainly can. Take a look at the change in income on a percentage basis for community mental health centers, you will find the change dramatically.

Mr. BAILEY. You are out there telling everybody that 25 percent across-the-board cuts or whatever they are, and also endorsing these additional cuts in Federal programs, is good philosophy and a good idea. What you have very quietly done, is you have found some way to get more dollars for that Federal program, and at the same time cut the State burden.

You have made a net increase in the Federal side and cut the State side and somehow that flies in the face of your commitment to what the President is doing is OK. If you are doing that, it is hypocritical.

Mr. MUTZ. All we are doing is setting priorities. This particular program is more important than something else. That is all I can answer.

Mr. BAILEY. I know the way those regulations were written, and you can go outside some of those general guidelines in some way; but not enough to account for what you have just said. I suggest you look over that arithmetic because you are being hypocritical.

Chairman ROSTENKOWSKI. Mr. Hiler.

Mr. HILER. Didn't you say that the State of Indiana has $265 million less than the Federal Government?

Mr. MUTZ. $260 million.

Mr. HILER. $260 million less coming from Washington coming to Indianapolis and other cities within Indiana?

Mr. MUTZ. Correct.

Mr. HILER. So somewhere we have $260 million less. What rank does the State of Indiana have in the amount of Federal dollars we get back compared to what we send out to Washington?

Mr. MUTZ. We are usually 49th among the 50.

Mr. HILER. Just about dead last. For 164 years, Indiana has been prioritizing.

Mr. MUTZ. Right.

Mr. HILER. You did not read this in your statement, but talked about the House Democrat leadership engaging in a blatant attempt to manipulate human emotions. I know what you are talking about, and I am sure you have questions when you have constituents that send you letters that come from the Democratic committee, if you want to save social security, send the Democratic committee a contribution.

That is the kind of thing you are talking about, playing with human emotions?

Mr. MUTZ. That is precisely it.

Mr. HILER. If there were people being turned away from that center, we should not have had a hot lunch.

Mr. JACOBS. Will you yield?

The Governor didn't pay for your lunch. I did.

Mr. HILER. If I knew that someone was being turned away from that door because you had bought me lunch, I would have let you buy them lunch.

Chairman ROSTENKOWSKI. The Chair has an obligation to get as many people to testify this afternoon, and as is the case, hearings seem to extend themselves so I will ask my colleagues to be somewhat cautious with respect to the amount of time that they are consuming; and the Chair will only recognize members that are seeking recognition.

Dr. Osborne, would you please take the witness table? Welcome, Doctor.

Identify yourself and proceed to your testimony.

STATEMENT OF BENJAMIN A. OSBORNE, CENTER TOWNSHIP TRUSTEE OF MARION COUNTY, ACCOMPANIED BY BURNETTA S. TANNER, CHIEF SUPERVISOR, AND HARRY L. PETTRIE, MANAGEMENT CONSULTANT

Mr. OSBORNE. I would like to welcome you and your committee to the consolidated city of Indianapolis, better known as "Uni-Gov."

Saving money at the expense of human misery is very poor economics, like barnacles on the bottom of a ship, it impedes progress and that is what the national administration is doing.

I am reminded of the Biblical story, "To him that hath shall be given; to him that hath not, even that which he has shall be taken away." The national administration has given a literal interpretation to this Biblical allegory.

The trustee is authorized by law as overseer of the poor to train, retrain, and rehabilitate the indigent; feed the hungry, clothe the naked, house the homeless, take care of the sick, and bury the dead.

As prescribed by law, raising funds to administer this program—poor relief—is not a function of the trustee. Those who are responsible for appropriating the funds, have never been able to reconcile themselves to any budget geared to the increased cost of living, and so every requested budget for poor relief has been cut back. Thus, the trustee runs out of funds every year, simply because sufficient allocations, as requested by the trustee, are never given.

Center Township is the largest township in Marion County and the State of Indiana, having a population in excess of 252,000 people according to the most recent census. No social service agency, United Fund-supported or other, churches included, compares in scope to the humanitarianism, effectiveness, and responsiveness of the trustee system in Center Township.

The offices of the Center Township trustee, formerly the national headquarters of the Aero Mayflower complex, were purchased with Federal revenue-sharing funds. Renovation of the complex was made possible by an EDA grant of $1.4 million.

The solar energy project, including the wind generator, was made possible by the trustee's allocation of $304,000 from Federal revenue-sharing funds. It was discovered at the first meeting of the National Association of Towns and Townships that the Center Township trustee of Marion County, Ind., was the only trustee to have allocated Federal revenue-sharing funds for something tangible and lasting; a moneymaking mechanism to have more money available for poor relief.

The career development institute, our training facility, is complete and ready to begin its operations. Presently, basic education courses are being offered, with the cooperation of the Indianapolis Public School System, to poor relief recipients in preparation to take GED examinations.

The trustee has tools and machinery which were graciously donated by an area businessman in an effort to start our program. However, funds are needed for instructors and equipment for training in making of precision instruments, tool-and-die, electronics, patternmaking, molding, et cetera. The private sector is offered space in this facility for training in their respective technology.

The objective of the Center Township trustee is to take the employable unemployed off the relief roll and place him or her in mandatory training in skills, precision technologies, tool-and-die, patternmaking, molding, and kindred vocational crafts; plus the basics of reading, writing, and arithmetic; thus stimulating the intellect so that we may have an empire of thought in which to exhibit an empire of action.

We have an annual increase in the costs of poor relief because of increased poverty, and poverty has increased because of increased unemployment. We have increased unemployment because of the national administration in its effort to control inflation decided that unemployment is the best weapon.

Now we have everything: Inflation, unemployment, high costs of living, high taxes, poverty, high costs of poor relief, hate, distrust, disgust, frustration, and amazingly, a lavish abundance.

It would be egotistical to pretend that somewhere concealed in the area of rapid technological advances is a social mechanism which will happily solve the problems of the poor.

For this is an age of science; an age pregnant with the seeds of progress that admits of no sympathy in human affairs, in that we must plan and plan now for the great gigantic struggle for the survival of the fittest.

To regain our leadership in production, a massive national program of "Buy America," tied in with realistic, comprehensive, indefinite extension of controls, may within 3 or 5 years increase production and reduce unemployment, thus reflecting on the cost of poor relief.

American technology capable of outproducing the combined nations of the world finds that its nonproductivity is less than one-half of the world's output. We have priced America out of the world's market. The technology that can outproduce the combined nations of the world is reluctant to create a social mechanism to distribute this abundance fairly and equitably.

So, we complain of the high costs of feeding the hungry, clothing the naked, finding shelter for the homeless, caring for the sick, and burying the dead.

Nothing could be more disastrous than for you to deafen your ears to the cry of the poor. I hope that you have the capacity to overcome the stereotyped conceptions of poverty and the realities of poverty, and can discriminate between mere oppression and suppression and purposeful social direction.

We must awaken within the individual the intelligence of his responsibilities to himself, to his God, and to creation, that intelligence which will make him realize and know that no one will do for him any more than he will do for himself. That intelligence must be based not on the belief that God Almighty will do for him all that he wants but upon the theory that man must do for himself as much as is possible of a physical being created by God, who made him master of his own destiny and architect of his creation.

God did not make an individual without making him able to think and he cannot think without bringing upon himself the results of his thoughts, good or bad.

I am mandated by law and my constituents and by my own conscience as overseer of the poor to meet their needs. I have no problem with my conscience.

[Attachments to the prepared statement follow. Additional material has been retained in the committee files.]

CENTER TOWNSHIP TRUSTEE
of MARION COUNTY
863 Massachusetts Avenue
Indianapolis, Indiana 46204

DR. BENJ. A. OSBORNE
Trustee

PHONE
317/633-5261

ADVISORY BOARD
PHYLLIS CARR
ABRAHAM I. MILLMAN
PIETER VAN MAAREN

Tax Rates per $100.00

of Assessed Evaluation

1981

Center Township Trustee	.3989
Poor Relief	
Civil Township	
Bond	
Beech Grove Library	.173
Indianapolis Public Schools	4.090
Beech Grove Public Schools	4.170
State	.01
Marion County	1.9813
Library County	1.942
City of Indianapolis	3.8045
Metropolitan Sanitation Indpls	.5238
Beech Grove City	2.6209

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Trustee

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ADVISORY BOARD
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ABRAHAM I. MILLMAN
PIETER VAN MAAREN

THE ACTUAL AND PROPOSED FEDERAL CUTBACKS ARE PLACING A MAJOR BURDEN ON LOCAL POOR RELIEF OFFICES, A BURDEN WHICH THESE OFFICES ARE ILL-PREPARED TO ASSUME.

IN INDIANA ESPECIALLY, AN OVERSEER OF THE POOR WHO HAS ALL THE WILL IN THE WORLD TO AID THE NEEDY IS HAMPERED BY LEGAL RESTRICTIONS AND DWINDLING TAX REVENUES.

FOR EXAMPLE, THE BURDEN OF FOOD ASSISTANCE IS ON THE COUNTY WELFARE DEPARTMENTS. THE TRUSTEE IS ONLY TO SUPPLY FOOD UNTIL THE FOOD STAMPS ARRIVE. HOWEVER, WITH LONGER INVESTIGATIONS, STRICTER GUIDELINES AND LONGER CASE PROCESSING TIMES, THE PERIOD BETWEEN THE APPLICATION AND THE RECEIPT OF FOOD STAMPS IS DOUBLING AND TRIPLING. ANOTHER EXAMPLE IS THE AID TO FAMILIES WITH DEPENDENT CHILDREN (A.F.D.C.). EVEN WITH THE PROGRAM IN FORCE, WELFARE CASEWORKERS CONTINUALLY REFER THEIR CLIENTS TO THIS OFFICE FOR BASIC NECESSITIES. IF THE PROGRAM DOES NOT KEEP PACE WITH ECONOMIC DEVELOPMENTS, THE BURDEN WILL FALL ON UNDERSTAFFED AND INSUFFICIENT FUNDED TRUSTEE OFFICES.

REMEMBER, THIS IS IN INDIANA WHERE TOWNSHIP TAXES ARE BASED ON A FROZEN TAX RATE. IN INNER CITY TOWNSHIPS, THERE IS THE FURTHER PROBLEM OF DECLINING TAX REVENUES AS MORE LAND DECLINES IN VALUE OR IS TURNED TO NON-TAXABLE USES. FOR EXAMPLE, CENTER TOWNSHIP HAS CITY, COUNTY, STATE AND FEDERAL OFFICE BUILDINGS, AS WELL AS SCHOOLS, COLLEGES, TENNIS COURTS, ARENAS AND STADIUMS.

IN ADDITION TO THE INCREASED BURDENS ON REVENUE, PROGRAMS WILL AFFECT THE TOWNSHIPS IN OTHER WAYS. FOR EXAMPLE, THE PRESENT ADMINISTRATION STATES THAT INCREASED INVESTMENTS FROM TAX SAVINGS WILL CREATE JOBS. HOW ARE POOR PEOPLE IN THE INNER AREA OF INDIANAPOLIS TO TAKE ADVANTAGE OF JOBS IN BUSINESSES WHICH THEY CANNOT GET TO ON PUBLIC TRANSPORTATION? WHERE ARE THE FUNDS FOR METRO TO ADD

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THE LATE NIGHT AND EARLY MORNING LINES TO OUTLYING AREAS SO THE POOR CAN GET TO ALL THE JOBS WHICH LEFT THE CENTER CITY? LACK OF JOBS ARE A STEADY BURDEN ON THE RELIEF ROLLS.

CUTBACKS IN TRAINING FUNDS ALSO CLOSE AN ESCAPE ROUTE FROM POVERTY. OUR INCREASINGLY COMPLEX TECHNOLOGICAL ECONOMY, PEOPLE WITHOUT SKILLS IN CURRENT AND FUTURE DEMAND, WILL OF NECESSITY BE BURDENS ON THE PUBLIC ROLLS AT LEAST PART OF THE YEAR. WHEN EMPLOYERS ARE SCREAMING FOR TECHNICAL WORKERS, IT IS A DISSERVICE TO INDUSTRY AND AN INJUSTICE TO THE PUBLIC, NOT TO PROVIDE MEANS OF MEETING THIS NEED. THE UNITED STATES HAS NO COMPREHENSIVE PLAN TO GEAR EDUCATION TO JOB NEEDS AND IN TODAY'S ECONOMY, THIS IS A CRIME. IT IS A CRIME FOR PEOPLE TO REMAIN ON PUBLIC ASSISTANCE AS ADULTS WHEN THERE ARE FACILITIES AVAILABLE WHICH, WITH ADEQUATE FUNDING, COULD PRODUCE VIABLE PRODUCTIVE CITIZENS OF THE FUTURE.

SUBMITTED BY,
Patrick J. Owens
PATRICK J. OWENS
COORDINATOR OF SPECIAL SERVICES

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AS THE BUDGET PICTURE WORSENS, TRADITIONAL COPING MECHANISMS AMONG RECIPIENTS OF SOCIAL SERVICES PROGRAMS MAY EXPAND TO NEW EXTREMES IF ADDITIONAL SUPPORT SYSTEMS ARE NOT DEVELOPED AND IMPLEMENTED. IN REALITY, A RAPID DECREASE IN SERVICES WILL ASSIST THE NEEDY IN LOSING THEIR HEALTH, HOMES, SOCIAL CONTACTS, JOBS AND POSSIBLY THEIR LIVES DUE TO A MENTAL HEALTH OR EMOTIONAL PROBLEM FOR WHICH NO HELP IS AVAILABLE.

ON AUGUST 13, 1981, PRESIDENT REAGAN SIGNED THE OMNIBUS RECONCILIATION ACT OF 1981. THE ACT CALLS FOR SIGNIFICANT REDUCTIONS OF THE GROWTH OF FEDERAL SPENDING AND IS A CORNERSTONE OF THE ADMINISTRATION'S ECONOMIC RECOVERY PLAN.

THE RECONCILIATION ACT, PUBLIC LAW 97-35, MAKES MAJOR CHANGES IN FOOD STAMP AND CHILD NUTRITION PROGRAMS AIMED AT CONSERVING 3 BILLION DOLLARS IN FEDERAL FUNDS. IN ORDER FOR THE ACT TO BECOME SUCCESSFUL, EMPLOYMENT OPPORTUNITIES MUST BE ESTABLISHED.

THE MIDTOWN COMMUNITY MENTAL HEALTH CENTER HAS LOST ITS VOCATIONAL SERVICES UNIT AS A RESULT OF BUDGET CUTTERS. CONSEQUENTLY, ITS MENTALLY ILL WILL BE REFERRED TO THE DIVISION OF VOCATIONAL REHABILITATION (D.V.R.) OR THE TRUSTEE, CAUSING AN OVERLOAD, POSSIBLY STAFF BURNOUT. ONE CAN ALSO QUESTION THE VALIDITY OF SERVICES RENDERED WHEN AGENCIES ARE FORCED TO CUT STAFF PERSONNEL. REAGAN'S PREHISTORIC THEORY OF PULLING ONE'S SELF UP BY HIS OWN BOOT STRAPS IS NOT COMPATIBLE WITH THE NEEDS OF THE TRULY INDIGENT WHEN THEY HAVE NO BOOTS.

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MENTAL HEALTH SERVICES (INTAKE) PROVIDED BY THE CENTER TOWNSHIP TRUSTEE HAS TRIPLED WITHIN THE PAST YEAR. THIS INCREASE MAY BE ATTRIBUTED PARTIALLY TO THE FACT THAT SOME INPATIENTS ARE RECEIVING EARLY RELEASES FROM STATE MENTAL INSTITUTIONS DUE TO A LOSS IN FUNDING. CONSEQUENTLY, THE TRUSTEE MUST GRANT ASSISTANCE IN AREAS OF HOUSING, COUNSELING, MEDICAL, UTILITY, CLOTHING AND A NUMBER OF OTHER SERVICES. PERSONS THAT HAVE RECEIVED ANY TYPE OF PSYCHO-THERAPY ARE HANDICAPPED IN PROVIDING FOR THEIR BASIC NEEDS. DUE TO THE FACT THAT THEY ARE NOT ELIGIBLE FOR DISABILITY. MANY EMPLOYERS ARE RELUCTANT TO HIRE PERSONS THAT ARE RECEIVING PSYCHIATRIC TREATMENT. EMPLOYERS FEAR THAT THEY ARE NOT ABLE TO COPE WITH THE PRESSURES OF A JOB. THEREFORE, THEY BECOME PERMANENT CLIENTS OF THE TRUSTEE, WHICH SERVES AS A TEMPORARY AGENCY.

THE SUICIDE AND CRIME RATES WILL PROBABLY INCREASE IN THE NEXT YEAR. MOST INDIVIDUALS WHO WORK A JOB FOR 15 OR 20 YEARS ARE NOT ABLE TO ADJUST TO THE PROBLEM OF NOT PROVIDING FOR THEIR FAMILY. THERE ARE INCREASING ALCOHOL AND DRUG PROBLEMS AMONG THE ELDERLY. SOME EFFECTS OF SUBSTANCE ABUSE INCLUDE MEMORY RETRIEVAL, MENTAL ACUITY, DEPRESSION, NERVOUS TENSION, LIVER DAMAGE AND ULTIMATELY DEATH. MOTIVATING FACTORS ARE NEEDED FOR THE ELDERLY. IT APPEARS THAT THE REAGAN ADMINISTRATION IN ITS ATTEMPTS TO REDUCE FRAUD AND OVERSPENDING IS HURTING MANY OF THE TRULY NEEDY. THIS ANTI-HUMANISTIC APPROACH IS AS FEASIBLE AS REWARDING THE AMERICAN INDIAN AN APOLOGY PLUS ONE CUBIT OF RESERVATION LAND. ONE POSITIVE INDICATION OF THE REAGAN PHILOSOPHY IS THAT IT STIRS ANGER. HUNGER BRINGS ABOUT AGRESSION. NOW IS THE TIME FOR SOCIETY AS A WHOLE TO EXAMINE ITS CONSCIENCE, AFTER ALL, REAGAN DIDN'T APPOINT HIMSELF AS PRESIDENT.

Respectfully submitted,

Dwight Simmons
Dwight Simmons
Mental Health Worker II

Donna Finch
Donna Finch DS.
Mental Health Worker I

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THE LACK OF UNDERSTANDING DOMINATING THE REAGAN'S ECONOMIC BUDGET CUTS MAY BE OBLITERATED, BUT THE MONETARY INSTABILITY OF THE POOR WILL ALWAYS BE AT ODDS WITH REAGANOMICS.

THERE ARE ABOUT 60 MILLION CHILDREN IN THE UNITED STATES TODAY UNDER 14 YEARS OLD AND A SIGNIFICANT NUMBER OF THESE CHILDREN ARE UNDER SOME TYPE OF SOCIAL PROGRAMS. WHEN ANY FACET OF AN ONGOING PROGRAM IS CUT, IT IS ALMOST INEVITABLE THAT THE POOR SHOULD FEEL THE CRUNCH, SINCE THE IMPACT IS STRONGLY FELT BY THEM. IT INTIMIDATES THE WEAK AND SCARS EVEN THE STRONGEST AMONGST THE POOR. ARGUMENTS ARE UNNECESSARY TO PROVE THE EXISTENCE OF OUR UNSTABLE ECONOMY AND THE DEVASTATING IMPACT IT HAS ON SOCIAL PROGRAMS (SUCH AS CHILD ABUSE). TIME HAS CHANGED AND THE POOR HAVE BECOME VICTIMS OF EXPLOITATION IN THE CHANGING TIME OF REAGANOMICS.

IT IS AT THIS POINT THAT PROGRESS IN TERMS OF SOCIAL PROGRAMS (AS INDICATED ABOVE) FOR HELPING THE POOR PRESENTS A MOST DIFFICULT PROBLEM. THE FACT THAT VIRTUALLY ALMOST ALL LOW INCOME RECIPIENTS ARE ENTITLED TO SOME TYPE OF ASSISTANCE DURING TIMES OF FAMILY DISLOCATION AND/OR ECONOMIC DEPRIVATION NECESSITATES THE UPHOLDING OF ALL SOCIAL PROGRAMS FOR THE BENEFIT OF UNITING SUCH DYSFUNCTIONAL FAMILIES AND SHOULD BE A BASIS FOR THE RE-EVALUATION OF SUCH PROGRAMS AND KEEP THEM. ECONOMIC INSTABILITY AND THE PRESENT ADMINISTRATION'S INSTABILITY TO KEEP THE FLOW OF UNEMPLOYMENT DOWN SHOULD IN NO WAY HINDER THE PROGRESS OF THIS COMMUNITY. SUCCESSFUL, LONG RANGE PROGRAMS AND TREATMENT MODALITIES MUST BE IMPLEMENTED TO CURB CHILD ABUSE NOT ONLY IN INDIANA BUT THROUGHOUT THE UNITED STATES.

BEFORE 1971, NOT A SINGLE COMMUNITY IN THE UNITED STATES PROVIDED ADEQUATE CARE AND TREATMENT FOR VICTIMS OF CHILD ABUSE

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ESPECIALLY, INCEST. KNOWLEDGEABLE ESTIMATES INDICATE LESS THAN 50% OF ALL CHILD ABUSE CASES ARE EVER REPORTED. PRESENT DAY STATISTICS SEEM TO INDICATE THAT THE ACTUAL INCIDENCE RATE OF CHILD ABUSE IS ONE IN A HUNDRED ON A NATIONAL LEVEL, AND THE FIGURE IS RISING. I FEEL EMPHATICALLY THAT A MASSIVE, SOCIAL COMMITMENT IS NEEDED, NOT ONLY TO PROVIDE CHILD ABUSE VICTIMS WITH ADEQUATE CARE AND TREATMENT BUT ALSO TO SEE THAT OUR CHILDREN GROW UP IN CONDITIONS THAT DEVELOP THEIR OPTIMUM, POTENTIAL AND SELF-AWARENESS.

SPECIAL TECHNIQUES SHOULD BE ADOPTED IN THE CRIMINAL JUSTICE SYSTEM AND IN SOCIAL PROGRAMS, NOT ONLY TO ENCOURAGE LOW INCOME FAMILIES TO SEEK TREATMENT, BUT ALSO TO ACKNOWLEDGE THE INHERENT LIMITATIONS ON A CHILD'S PERFORMANCE NOW AND IN LATER YEARS, SUCH AS THE ADOLESCENT PERIOD WHEN SUCH EXPERIENCE COULD SEQUENTIALLY LEAD TO A CUMULATIVE, PSYCHOLOGICAL, DEVIATE BEHAVIOR. THE MORE MONEY PUT INTO SUCH PROGRAMS, THE MORE MONEY IS SAVED BY THE STATE AND LOCAL GOVERNMENTS.

SUBMITTED BY,

Michael O. Verissimo

MICHAEL O. VERISSIMO
ABNORMAL BEHAVIOR ANALYST

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NUMBER OF PERSONS
ISSUED POOR RELIEF ASSISTANCE

1977	70,321
1978	73,838
1979	73,240
1980	78,241

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Chairman **Rostenkowski**. Thank you, Doctor.

Mr. Jacobs.

Mr. **Jacobs**. Thank you very much for your testimony, Dr. Osborne. It enriches the record.

Mr. **Gradison**. I have no questions but I would like to join with Mr. Jacobs in thanking Dr. Osborne for very useful testimony.

Mr. **Jenkins**. I enjoyed very much our visit this morning, and appreciate your testimony before the committee.

Mr. **Osborne**. Thank you very much.

Any questions?

Chairman **Rostenkowski**. Mr. Gephardt.

Mr. **Gephardt**. One quick question. Of the cuts that have been made in the first round of budget cuts, can you name one that would have been the worst in effect in your mind of the people you try to deal with?

Mr. **Osborne**. In 1973, the then-Governor of the State of Indiana, Otis Bowen, froze the tax levy in 1973. In so doing, he geared the cost of living to the 1969 and 1972 level.

You do not have to be a mathematician to realize the difference of that dollar between 1969 and 1972 and today.

Every year since 1973 when I submit a budget, it has been cut back to the 1972 level. Just this morning I submitted a budget for $5 million, and again it was cut back $2 million and something, back to the 1973 level.

Well, you gentlemen know, CETA should not have failed in Indianapolis. It failed because the mayor is not sufficiently knowledgeable in the area of poverty and poor relief.

He has consistently projected a demonstrable incompetence in the area of poverty, and his approach to poor relief, ferreting for garbage where no garbage exists. Every proposition, every budget submitted by the Center Township trustee, is dropped.

I have 20 facilities, machinery for tool-and-die and over $3,000 worth of tools. I am not using them. My solar energy project, I not only heat by solar, I air-condition by solar.

I have erected two windmills on my main office building to electrify that building. In time, I shall disconnect those windmills and merge it with solar. Let me say this, and then I will quit, I am merging two unlimited sources of energy, the sun and the wind.

The merging of these two unlimited sources, within the merging of them, there is a key to the ultimate. Probably some Einstein may come. He was the first man to look and see what he saw.

The ultimate is here, and if I tell you what the ultimate in my program is, in the merging of these two sources of energy, perpetual motion is possible.

I am tickled to death about our space program. Someone made a mistake 31 seconds before takeoff and what was that mistake? They had forgotten to change the oil.

Nothing of great universal value has ever been completed without mistakes.

Chairman **Rostenkowski**. Any further questions?

Mr. **Hiler**. On page 3, you say:

> We have an annual increase in the costs of poor relief because of increased poverty, and poverty has increased because of increased unemployment. We have in-

creased unemployment because the national administration in its effort to control inflation decided that unemployment is the best weapon.

Now we have everything: Inflation, unemployment, high costs of living, high taxes, poverty, high costs of poor relief, hate, distrust, disgust, frustration and amazingly, a lavish abundance.

Are you suggesting in the 67 days since the President's program went into effect, that we now have everything, or are you suggesting that we have not taken the steps yet to solve those existing problems?

Mr. OSBORNE. I don't think you will be able to solve it under present conditions, even here in the State of Indiana. Coming events cast their shadows.

Oh, my gracious, should I say this?

Mrs. TANNER. We have had a great increase with all the cuts on a national level, we have felt totally with every increase, going from 15 to 20 percent in Center Township which has the highest number of unemployment.

Everything has become the responsibility of the trustees of Indiana.

Mr. OSBORNE. Two of the President's closest advisers, one is suffering from a severe case of lapse of memory. The other has what we call a trickle-down program, and that is to let the crumbs fall from the table to the poor, the not-so-poor and the poorest of the poor.

Mrs. TANNER. May I say one thing else to this committee as being an administrator, I was very disgusted to hear two powers of this State specify that some of the cutbacks are not affecting some problems in this State when I have for 22 years worked into the line of taking care of public service; and when they say it is not going to put a hurt on Indiana, I think it has.

We have to make the decision between when the brick is impossible, or if we are supposed to turn brick to bread here in Indiana.

Chairman ROSTENKOWSKI. Thank you very much.

Mr. Moses, Mr. Norman.

STATEMENT OF THOMAS W. MOSES, CHAIRMAN OF THE BOARD, INDIANAPOLIS CHAMBER OF COMMERCE

Mr. MOSES. I am Tom Moses, and I appear as chairman of Indianapolis Chamber of Commerce, and in real life I am chairman of the board of the Indianapolis Water Co., which is an investor-owned utility which services most of Marion County, and some of the adjoining counties.

I am deeply appreciative for the opportunity to appear before this committee as I have come to admire greatly its approach to fiscal matters. During the great tax-cut debates of last summer, I was impressed with the reasonableness and perception of the committee and particularly the chairman.

I must confess that it is easier to admire someone who agrees with me than one who does not. In any event, I thought your attitude toward the proposed tax cut reflected accurately what the American people wanted and that was some relief from the onerous burden of Federal taxation. Reasonable people may differ as to amount of tax relief and remain harmonious in philosophy.

The business of Indianapolis Chamber of Commerce is business. Businessmen recognize that if revenues are reduced, certain services must be cut back. In our opinion, the election of 1980 was not necessarily a clarion call for a reduction in services to the public, but a demand that the responsibility for such services be shifted from Washington back to States and local governments, which, as the saying goes, are "closer to the people."

It was also hoped that moneys coming from Washington in the form of block grants could be administered with greater efficiency. These are the things that the business community wanted, and these are the things that we are getting.

Frankly, we waste very little sympathy on municipal and State officials who are wringing their hands because what they said they devoutly wished actually came to pass. If the services to the public that must be curtailed because of lack of Federal funding are deemed to be essential at the local level, then a method of funding must be devised that may involve increasing local taxes or the looked-for savings in administration of the block grants. You can't have it both ways.

Fortunately for us, the Indianapolis business community has always had a fine relationship with both the State and municipal elected officials. At the request of the mayor of Indianapolis, we are examining the problem of future municipal finances.

I tried to sum up this relationship in a brief talk that I made on the 100th anniversary of the company that employs me.

> It has been my privilege to know every Governor—obviously not all of them while they were in office—since World War II, except Henry Schricker. While there may have been great differences in style and administrative ability, there has been little difference among them in their desire to do the best job for the State and its people. The press has, from time to time, taken aim at each of them, and each has confronted the slings and arrows of this fate with considerable aplomb and, for the most part, good grace. I, for one, am proud to have known them all.
>
> The other tough job in the State is the mayoralty of Indianapolis. I can go back to Alex Clark in this office, a span of 30 years. The mayor of this city is really on the firing line. With two major daily papers, four commercial television stations with at least three scheduled news broadcasts daily, and a myriad of weekly publications, the 25th floor of the City-County Building is under a microscope.
>
> Again, while there have been variations in style among them, all seven of these mayors have been good and honest public servants, and again, it has been my pleasure to have known them.
>
> May I say that our State legislators and Uni-Gov Council members have only the protection of numbers. This may tend to diffuse the pressure, but it takes nothing from my admiration for the job they do. Why they do it, I cannot answer.

Without an actual nose count, I would judge that the people encompassed by this statement were equally divided between the major political parties.

Because of our dependence on the automobile industry, the employment picture in Indianapolis has not been the brightest. Much of the slack has been taken up in construction projects.

Over the past decade, we have had over a dozen major projects committed in the city, and particularly in the downtown area, estimated at $341 million, the most important of these are underway at the moment. Federal funding totals $12.5 million, the State has committed $27.5 million, and the city $83 million, and $218 million has come from private sources. We are very proud of the last figure.

We are also proud of integration of our school system without significant incidents. While the Chamber of Commerce had a hand in it, it was a tribute to the intelligence of our people, both black and white.

While we may differ in politics and economics on occasions, organized labor is not our enemy. I consider Ernie Jones, president of the Indiana AFL-CIO, Ed Yates, chairman of the Marion County CAP Council, UAW, and Dallas Sells of the UAW, and Bob Voorhies, president, AFL-CIO Central Labor Council, as citizens of the first rank and personal friends.

Operation "Top Notch" is a tribute to the commonsense of the building trades and construction industry. We can count on the support of all these people, when the general welfare of the citizens of the city or the State is involved.

In closing, I would like to call your attention to an area that may not be in your jurisdiction, but should be of considerable interest to you—the future of the social security program. This is a personal idea and undoubtedly requires a great deal of refining. Why not permit an individual to elect to take a credit on his personal income taxes in lieu of accepting social security.

I do not propose that anyone would be exempt from paying into the social security fund, but some incentive to elect to go the tax credit route could be created if a part of the social security payments were a deduction—not a credit—under Federal income tax law.

It seems to me that the benefits of such a program should extend to social security recipients, people who are comfortably fixed at age 62 to 65, and people eligible for social security in all income brackets who want to continue work without any limitations on income.

Thank you for permitting me to appear before you. There are many things that I could tell you about this great part of the country but as long as the problems of the business community are understood by gentlemen in your positions of influence, Indiana, and indeed the United States, will enter into an extended period of prosperity that can only help every citizen of the country. I say this as neither a "supply sider" or a "trickler downer." I don't even know what they are.

Chairman ROSTENKOWSKI. Are there any questions of Mr. Moses? You are excused, sir.

Mr. MOSES. Thank you.

Chairman ROSTENKOWSKI. Mr. Norman.

STATEMENT OF C. ROBERT NORMAN, ADMINISTRATOR, HERITAGE HOUSE CONVALESCENT CENTER

Mr. NORMAN. My name is C. Robert Norman. I am the administrator of the Heritage House Convalescent Center, Shelbyville, Ind. The Heritage House is a 98-bed medicare/medicaid long-term health care facility, fully licensed and certified, both State and Federal.

I am also president-elect of the Indiana Health Care Association. The Indiana Health Care Association is a statewide trade association made up of 273 long-term care facilities representing approximately 28,000 beds.

I am here today to give you my views of the present and future impact of Federal and State government actions including the Omnibus Budget Reconciliation Act, both the State government and the long-term health care industry are being forced to reassess these services, payment for these services and availability of and access to these services.

Our industry is accepting this challenge to rethink and respond with State government to obvious changes in Federal policy and law regarding services and Federal financial participation.

There is no question as to the strong desire by providers and State government to increase Indiana's States rights and decrease Federal bureaucracy which is and has been chocked with needless and expensive bureaucratic redtape and documentation procedures which in reality have proven to be counterproductive to quality health care.

Federal deregulation by the current Federal administration is certainly welcomed down to the individual nurse who said to me, "Please cut the useless paperwork at the desk and let us care for our patients at the bedside."

Our industry for years has proposed the use of State laws, regulations, and policy to replace Federal dictates regarding numerous operational features of long-term health care facilities, as well as payment standards and eligibility guidelines. We see the new Federal policy reacting in this direction. In the main, we are concerned that the Omnibus Reconciliation Act does not go far enough to allow States to cut useless procedures and allow innovative options in program areas.

Regarding the positive side of the new Federal policy, the bottom line is obvious, with fewer Federal match and grant dollars, the ball is in the State's court. For a number of years, State government has told our industry if Indiana didn't have "this or that" cumbersome Federal law or regulation to follow, the State could do a much better job.

Now it is the time for the States to act and answer the challenges by the public, the recipients, and the providers to carry the ball and produce.

By State law, Indiana has enacted copayment and prior approval for certain medicaid services, regarding the long-term health care industry. These new laws are an attempt to help fund existing programs and prospectively review services.

As stated previously, additional efforts such as Federal usage of individual State medicaid procedures and policies for medicare concerning payment, survey, and certification elements and operational standards should be considered. These efforts would be cost-effective without loss of quality or accountability.

Federal dollar cuts to the States are a fact. The financing of current and new programs must be evaluated and prioritized by both State and Federal government concerning availability of State funds without deficit State financing to fund such programs.

On the cautious side, the new Federal policy regarding economics and program entitlement should be carefully evaluated before implementation with special review of the following:

One, limits on services; two, freedom of choice by recipients; three, new and accelerated waiver powers; four, eligibility changes; five, direct payment mechanisms to providers and recipients; six, family financial participation.

I do not know what the proposed reductions in future Federal budgets are. At this time, however, I would hope that the State government would have ample opportunity to review future changes in health care delivery systems and any changes in the scope of these services. The capacity of Indiana to manage fiscally its enlarged responsibilities is of great concern.

In summary, the long-term health care industry hopes through this New Federalism positive approaches affecting both State and Federal government can achieve cost containment, decrease health care inflation, and realistically meet the health services needs of Indiana citizens.

Thank you very much. I will be happy to answer any questions.

Chairman ROSTENKOWSKI. Thank you, Mr. Norman.

Mr. Jenkins.

Mr. JENKINS. Mr. Norman, do you support the cap on the Federal share of medicaid?

Mr. NORMAN. My opinion, is it obtainable, the first year, 3-, 4-, and 4½-percent cut, yes, I think that is realistic, and as many others have said here today, I think in view of the other cuts, it is a reasonable request, yes.

Mr. JENKINS. Since you are in this business, can you sustain additional cuts in medicaid of 5 percent this year?

Mr. NORMAN. Well, as I said in my testimony, I think some of the objections to the cuts could be outweighed by some of the administrative mechanisms and some of the procedures which have come about if the States had waiver authority.

The area of waiver authority has been talked greatly, to the point earlier in this administration, that there would be great waiver abilities, and the State of Indiana has reacted to us that those are not available at this time.

Mr. JENKINS. In your center, you have 98 beds for medicare and medicaid patients.

Mr. NORMAN. The medicaid census is approximately 68 patients a day.

Mr. JENKINS. How would you make up the reduction?

Mr. NORMAN. I mentioned two. The prior approval of benefits and the distribution of the benefit patterns of where recipients are going to receive different services would be one.

The copayment statute in the State of Indiana is in courts right now, so I don't know how many dollars they are estimating to save on copayments.

Mr. MATSUI. You would increase the copayment by the patient.

Mr. NORMAN. No, that is a newly enacted State statute, and it is being challenged right now.

Mr. MATSUI. You would make up the difference how, in medicaid?

Mr. NORMAN. Dollar impact on the State?

Mr. MATSUI. Right.

Mr. NORMAN. The copayments would be one area, and the other would be the prior approval mechanism for certain services, and hoping that certain services could be cut on an individual basis or combined in a facility and included in the room and board concept; in other words, include that in the overall rate structure.

Mr. MATSUI. That would not, in your opinion, eliminate some services that you deem to be necessary?

Mr. NORMAN. Restructure, not eliminate, the payment mechanism or the delivery systems inside institutional elements.

Chairman ROSTENKOWSKI. Thank you, Mr. Norman.

Senator Mahern, Senator Bosma, Representative Crawford.

Welcome, and we will take testimony from you individually, and conclude the testimony and get into the discussion period.

STATEMENT OF HON. LOUIS J. MAHERN, JR., INDIANA STATE SENATOR

Mr. MAHERN. My name is Louis Mahern, a member of the Indiana State Senate.

I represent the 33d Senatorial District which is comprised of the central business district of Indianapolis, and the surrounding residential neighborhoods.

While the 1980 census figures for income and housing are not yet available, I can assure you that my constituency has a heavy proportion of low-income citizens, particularly low-income elderly.

I believe that we are confronted this afternoon with two issues. The first is the effect of the Federal budgetary cuts enacted and proposed on the citizens of Indiana. The second issue concerns the ability and willingness of State and local government to assume at least some additional responsibilities under the new federalism theory.

There are others on your agenda more qualified to address the impact of the cuts.

The emphasis of my remarks will relate to the willingness and ability of State and local government to assume additional responsibilities.

Since 1971, the percent of personal income which goes to State and local taxes in Indiana has been on a general decline.

The most recent significant tax cut came in the 1979 session of the general assembly when the income tax was reduced and a homestead credit was enacted. The 5-year cost of these cuts will exceed $500 million.

During that same session the legislature also passed a resolution calling upon Congress to continue Federal revenue sharing to the States and a resolution calling for a Federal Constitutional Convention in order to balance the Federal budget.

The majority party members in Indiana have been fervent supply siders for sometime. In 1971, Indiana ranked 23d among the States in percent of personal income paid in State and local taxes. In 1980, Indiana had fallen to 50th among the States. In 1971, Hoosiers paid about 10.5 percent of their personal income in State and local taxes. In 1981, Hoosiers will pay about 8 percent of personal income in State and local taxes.

In 1971, Indiana's unemployment rate was 2 percent below the national average. In 1980, Indiana's unemployment rate was 2.5 percent higher than the U.S. average. In the decade of the seven-ties, Indiana lost over 94,000 manufacturing jobs. In the last 2 years alone Indiana has suffered an additional net loss of 125,000 jobs.

In January of this year, Indiana's unemployment rate was 8.5 percent and an average of 78,000 Hoosiers were receiving unemployment benefits. In September of this year the unemployment rate rose to 9.8 percent and the number of Indiana citizens drawing unemployment had fallen nearly in half to only 40,000. In the first 9 months of this year, nearly 65,000 of our citizens exhausted their jobless benefits.

According to statistics compiled by the IU School of Business, the last time Indiana's per capita personal income was as high as the national average was 1969. In 1980, our personal income level relative to the national average hit a 40-year low. Hoosier workers now earn 88 percent of the national average.

Indiana is lowest in taxation and second only to Michigan in unemployment. If nothing else, when you return to Washington you can report to your colleagues that you have seen the supply side future and it doesn't seem to work.

As to the ability of governmental units to pick up some of the slack generated by Federal cuts, we must differentiate between State and local units.

Since 1973, there have been rather stringent controls on the ability of local units of government to raise additional revenues. In large measure the property tax control program has been funded by CETA, general revenue-sharing, Federal public works funding and the community development block grant program.

As these programs are scaled back at the Federal level there is very little evidence that the legislature is inclined to grant meaningful home rule to local units of government.

Except for a couple of short term stopgap measures the leadership of the general assembly has indicated that no major fiscal legislation will be considered in the upcoming election year session. In fact, the Governor's position, since his inauguration has been that he would countenance no general tax increase during his first term, which ends January 1985.

There is one other issue which I feel I should address. That is the State's handling of the block grants.

About 3 or 4 years ago, Indiana began to utilize nearly its full title XX dollars. These funds were used to either fund State agencies or to supplant State dollars which had been funding local social service providers.

If the legislature would do that when it had substantial surpluses at the State level, what do you think they will do as they face deficits at the State level?

Unless Congress provides rather strict maintenance of effort requirements and a workable process for legitimate complaints about the handling of block grants, the State will shortchange local units of government.

Ironically, it is the private not-for-profit service providers who will get the shortest end of the stick. Those agencies in the private sector who rely to a large extent on voluntarism will probably be hurt the most by the President's program.

Chairman **Rostenkowski**. Thank you, Senator.

Senator Bosma.

STATEMENT OF HON. CHARLES BOSMA, INDIANA STATE SENATOR

Mr. **Bosma.** I am State Senator Bosma, representing the 32d District of the State District in Indiana.

The majority of my area lies within Marion County, the county in which you are currently sitting now.

Thank you for the privilege of appearing before you to express my feelings about the President's economic program and the impact that the budget cuts may have on the lives of those who are recipients of government-sponsored social service programs.

As I begin, I want to indicate my strong support for our President's economic program. I may have reservations about some of the details, but the philosophy of reducing the growth of Federal spending and the returning of more responsibility to the States is a philosophy that I find highly acceptable.

Our State is ready to accept the challenges that this philosophy of "New Federalism" poses. We believe that Indiana can do a more efficient job of determining need and delivering essential services than the Washington bureaucracy can ever do.

During my 17 years in the Indiana General Assembly, I have been one of the more active proponents of our State's participation in the offering of State and Federal social service programs to our disadvantaged citizens. My sole motive was always to direct such services to those in true need.

While serving in the legislature, I have seen this list of social service programs burgeon into a bureaucratic monster which our working and producing taxpayers do not understand and are no longer able to support.

As the number of these welfare programs exploded, we seemed to lose all sight of the basic nature and function of government—namely to provide only those services for our citizens which they could not supply for themselves.

In our attempts to do everything for everybody with our wonderland of benefits, we have spawned a group in our society that cries to government for all their needs and now boldly demand these needs as absolute rights. The sad fact is that while we have been extending our resources to many who could, in fact, do more for themselves, we have had to deny adequate services to those who are really in need of our help.

It is this number who are legitimately in need of service who should be shown our greatest concern. I am convinced, however, that the actual statistical percentage for this category is far below the percentage which we are currently serving.

I view our budget cuts as a necessary and practical way of applying "brakes" to what seems to be an uncontrolled growth of a complicated welfare system. These budget cuts and the returning of program control to the States offers us a golden opportunity to make our social service programs decidedly more effective and efficient.

Because our resources will be moderated and because local control will allow for more flexibility in the offering of services, and because the needs of people can best be delivered by those who are closest to them, the State will, of necessity, be more careful about who is served and how they are served.

We can even speculate that because "necessity is the mother of invention," the State will search out and find new and more innovative ways to serve the truly needy.

By tightening the eligibility requirements on the availability of free comprehensive medical care, free transportation for medical services, free prescription drugs, free dental care, free legal services, free day care services and subsidized housing, we can expect that natural fathers will be more rigorously forced to support their own children and to supply homes for them.

We may even find relatives recognizing their responsibility for family members in need of help. There is nothing wrong with budget cuts that effect this kind of direction. After all, this was the American way until our present welfare program began to reward the wrong kind of values and penalize the wrong class of people.

As our welfare system has developed over the last 20 years, we have seen many of our programs abused and exploited. The controls which were supposedly designed to prevent fraud are easily overcome by those who learn how to work the system.

We have rewarded clients for not marrying and, in effect, paid them to have children. Our system has done little more than multiply the so-called "government poor," many of whom are better off financially than our working class citizens who are paying the bill with their taxes.

Yes, I support the budget cuts because I believe the benefits we will derive from them far outweigh what are viewed as short-term administrative problems which could occur in the transfer of control to the States. I do not believe that a reduction in resources is going to create difficulty for any of those whom we served as long as program control is vested with the State.

Instead, I anticipate that our State will find ways to do "better with less" and I am convinced that we can.

Finally, I view our President's economic policies as a way of calling a halt to the process that has slowly but effectively been working to change our taxpaying middle class into the poor class of our Nation.

I have with me today, in this room, Mrs. Judy Sanford, who is a welfare worker in Marion County, the county which I represent. I have consulted with her and with her supervisor about the testimony I have presented.

Since she is actually working with many recipients of some of our social programs, she is in an excellent position to have first-hand knowledge of the impact that budget cuts could create.

After talking to her, it is her opinion that few if any of the clients she serves will be adversely affected. I would hope that the committee would be interested in asking her some questions.

Chairman ROSTENKOWSKI. Thank you, Senator.

Representative Crawford.

STATEMENT OF HON. WILLIAM A. CRAWFORD, INDIANA HOUSE OF REPRESENTATIVES

Mr. CRAWFORD. Thank you, Mr. Chairman, members of the committee.

My name is Bill Crawford, and I am a member of the Indiana House of Representatives and serve on the House Ways and Means Committee. I represent some 163,000 people in the central part of the city of Indianapolis, a district that we are presently in.

It is a multimember, three-member district.

The budget of the State of Indiana for fiscal year 1982 amounts to $5,312 million. Approximately one-third of that budget, or $1,711 million was expected to come from the Federal Government.

Indiana ranks third from last in terms of its receipt of Federal dollars when compared to the taxes it pays to the Federal Government. We get back less than 75 cents on the dollar. Part of this is because Indiana makes the lowest tax effort in the Nation in terms of taxes raised as a percent of personal income. We are 19 percent below the average.

Indiana's fiscal situation is serious. Like many States, economic conditions have had an adverse impact on State revenues. However, while some States have had problems as a result of inaccurate forecasts, our problems have not stemmed from unexpected revenue shortfalls, but from deliberate, self-inflicted revenue reductions.

As a result of tax cuts, the State has lost nearly half a billion dollars in revenue in the 3½-year period from the beginning of this decade through the end of fiscal year 1983.

I am not proud of our own record, but as a result, the impact of Federal aid reductions is probably less in our State than in many others. Nevertheless, the impact in Indiana is severe.

I will give you a brief statement on how Federal funds enter the State budget.

First, I would like to outline what the $1,711 million in Federal funds I spoke of is used for. These figures from the State budget agency are based on fiscal year 1982 budgets before enactment of Federal cutbacks.

An expected $543 million was to come to the State for public welfare programs including $264 million for medicaid, $177 million for food stamps, $90 million for public assistance, and $12 million for child welfare, work incentives, and other welfare programs.

An expected $456 million was to come to the State for the State's employment security division, which administers the State's unemployment compensation programs.

An expected $182 million was to come to the State for transportation programs including $114 million for highway construction, $34 million for aid to local roads and streets, and $34 million for local mass transit grants.

An expected $85 million was for weatherization and fuel assistance programs.

An expected $74 million was for title XX social service block grants.

An expected $62 million was for CETA occupational development programs.

An expected $60 million was for the school lunch programs.

An expected $36 million was for the title I elementary and secondary education programs, $35 million for the State vocational rehabilitation programs, and $29 million for State and local vocational education and adult education programs.

An expected $25 million was to come for mental health programs, including $19 million for community mental health centers.

An expected $27 million was to come for stream pollution control grants.

An expected $31 million was by the State board of health for a variety of health and environmental programs including the WIC [women, infants and children] program.

An expected $19 million was to come to the commission on aging and the aged for nutrition and other programs.

An expected $8 million was for airport development and $5 million for scholarships not including the Pell grants.

That amounts to about 98 percent of the Federal funds expected by State government, but it does not include other funds going directly to local units of government, universities, and other entities.

The State of Indiana and its political subdivisions have received some $1.5 billion to date in Federal revenue-sharing. The State was receiving some $46 million annually when the State share of the program was discontinued. Our localities receive some $89 million under this program annually in addition to other programs such as community development block grants, UDAG grants, et cetera.

The impact of Federal cuts is this then:

What then is the impact of the Federal cuts on these programs? Ed Rissing, the Washington liaison for the Indiana office, has made some statistics. Their analysis, based on a combination of our historic percentage share of selected programs—and more accurate information where available—suggests that Indiana could receive $138 million less than the State did in fiscal year 1981 in just these selected programs with no further budget cuts. If the 12-percent Reagan cut were implemented, this figure could rise to $286 million.

Those cuts are only in selected programs which represent only roughly half of the total Federal aid programs to State and local government. So even with 4 percent cuts we could be talking about a total loss of Federal funds in the range of $200 to $300 million. In any event, it is my conclusion these programs have already been cut enough without further cuts.

Some of the more drastic cuts under the reconciliation bill alone include a loss of $68 million in CETA funds, $18 million in food stamps, $16.5 million in UMTA mass transit funds, $15 million in social service block grants, $13 million in child nutrition programs, $8.5 million in highway trust funds, and $5.5 million in alcohol, drug abuse, and mental health block grant programs.

The above figures are not comparable to the State budget agency figures on program levels cited previously because the budget agency figures do not include funds which bypass State government, because both sets of data are based on estimates, and because a slightly different fiscal year is involved.

Summary: The point I wish to make is that Federal funds are very much a part of the fiscal health and well-being of both State government and local government. Furthermore, the programs being cut the most have a disproportionate impact in my district, particularly the CETA programs cuts and the medicaid program.

Finally, I see no evidence that the present State administration has any intent of replacing these reduced Federal funds with State funds.

As Senator Mahern has testified, we have had Reaganomics at the State level for a decade. The present State administration is unfortunately proud of our low State tax effort, ignoring the benefits of investments in human beings in encouraging economic growth and development.

The majority party has so gerrymandered legislative districts in the State legislature, I expect that these reductions and any further reductions in Federal funding for these programs will amount to permanent cuts in program levels because they will not be replaced by State funding. That is why I am not at all in favor of turning Federal revenue sources back to the State in the hopes that the States will utilize them. In Indiana that is highly unlikely.

Mr. Jacobs [presiding]. Thank you, Mr. Crawford.

Mr. Jenkins.

Mr. Jenkins. I want to express my appreciation to the panel for your their testimony. You mentioned the medicaid portion. I take it from your statement that you might feel that additional cuts are going to be detrimental in that area.

Mr. Crawford. Most definitely. We prided ourselves in a number of prereleases citing the fact that we have the lowest error rate in the Nation in terms of those individuals on medicaid that were there illegally.

We received money from the Federal Government to reward us for our effort in policing our medicaid program to make sure that those individuals that were on the program were needy. We cut 7,000 people off of AFDC, which cut them off medicaid, and we also passed, last session our general assembly, a system of copayments and of prior approval.

Any additional cuts would impact only on those that are in need at the State level, and I would challenge the State officials to come up and say, on the one hand, we could have the lowest error rate and cite that number of individuals that we are cutting off.

Any additional cuts in that would have to get those that are definitely in need.

Mr. Jenkins. You disagree with that, Senator Bosma. Do you think we can cut more in medicaid?

Mr. Bosma. I can, with the reservation that more flexibility be given to the State to control the program. In many instances, there is an overutilization of the program. If there is any one complaint that I receive from my constituents more than any other, it is the fact that recipients of the welfare program have a far better medical plan than any private citizen who is working for a private firm.

Blue Cross-Blue Shield estimates that if they were to develop a plan that was equal to the medicare, medicaid plan, it would be too expensive for people to afford.

There are some basic medical needs that people have to have but there are some that can be cut out, because in many instances, they are cosmetic or the physician in collusion with the patient does things that are not needed.

Mr. **Jenkins**. Don't you have a right now to police those?

Mr. **Bosma**. We have a program integrity group in the welfare department. We are proposing for this State a fraud and abuse which we do not currently have.

Mr. **Jenkins**. Well, the Federal Government actually pays you to police. Are you saying that you are not able to police it?

Mr. **Bosma**. Oh, yes, we are able to police it.

Mr. **Jenkins**. Why don't you cut it out, all these cosmetic things? Don't you have that authority now?

Mr. **Bosma**. Certainly we do, and a proposal will come to prosecute people who are caught in this situation of abusing the program.

What I am saying is that if the State has the flexibility to make some of the guidelines, set the guidelines rather than follow the Federal guidelines, I think we can control it much better than it can be controlled by the guidelines that come from Washington.

Mr. **Jenkins**. I tend to agree with you, frankly, but I think that sometimes we tend to hide behind fraud and abuse allegations——

Mr. **Bosma**. I am talking about overutilization which I suppose is abuse.

Mr. **Jenkins**. What specific cosmetic program do you want to eliminate that you are now providing through medicaid?

Mr. **Bosma**. I was talking to a provider, pharmacist, just last week, and he indicated to me that he has many welfare recipients coming into the pharmacy, and they are coming in on the basis of once every 2 weeks simply to get pills for reducing, for weight reduction.

He said, some of these people have been coming into his pharmacy for the last 3 or 4 years, and none of them, it is obvious that none of them are losing weight.

Mr. **Jenkins**. The pills aren't working, are they?

Mr. **Bosma**. Are they? They are not taking them. The physician ought to authorize them to go to another pharmacy or try a different pill.

Mr. **Jenkins**. I agree with you if that is occurring. Do you have the discretion to take steps now to eliminate that?

Mr. **Bosma**. I am not sure.

Mr. **Jenkins**. I would think that you do have it and that may be an area you would want to look into.

Mr. **Bosma**. If we have the discretion, I think we better look into it, too.

Mr. **Jacobs**. Mr. Gradison.

Mr. **Gradison**. Senator Bosma referred to conversations that he had had with Judy Sanford, a welfare worker in Marion County. In view of the statement which he made, I would like to use my few minutes to question Mrs. Sanford because of the importance of the statements which were attributed to her.

Mr. **Jacobs**. The Chair has some apprehension considering the lateness of the hour.

I would ask unanimous consent that the testimony of Mrs. Judith Gaines, who is also an official of the Marion County Welfare Department, be included in the record at this point.

[Mrs. Gaines submitted the following:]

MARION COUNTY DEPARTMENT OF PUBLIC WELFARE,
Indianapolis, Ind., January 13, 1982.

Hon. BILL GRADISON,
House of Representatives,
U.S. Capitol Building,
Washington, D.C.

DEAR SIR: I regret that time precluded a question and answer session (during the Indianapolis hearings on 12/7/81) that would have allowed you to dig to the bone and marrow of the Welfare system and its several problems, as no amount of panels, investigative committees, or side trips to the inner city (or whatever it's to be called by what recipients refer to as "The Establishment") will truly elicit what any one caseworker knows: what it's really like out there "in the streets".

Caseworkers "live" with recipients, their problems and their lives, eight hours a day, 5 days a week, 50 weeks a year. We come very close to knowing what it's like to be a recipient without actually being one. We speak and understand "street talk" and dialects. We learn how to observe without seeming to, how to successfully dig into our recipient's business (life), how to read between the lines and get to the truth of the situation where humanly possible. We also know what a recipient would tell as gospel to a blue ribbon panel of concerned and sympathetic listeners is certainly not what a recipient tell a caseworker.

Recipients are perfectly aware that caseworkers realize the difference between the facts of their lives and situations and what they weave for those not "in the know". They are cognizant that caseworkers understand that recipients would truly be poor if they really had only their welfare and food stamps on which to exist. Probably 75 percent of all recipients have alternative resources on which they live in addition to welfare, et al. They know they have money sources other than welfare, caseworkers know they have them, and recipients know we know.

Please keep these facts in mind during your perusal of the following enclosure and be assured that if I can be of further assistance, you may call upon me at any time.

Sincerely,

JUDITH SANFORD GAINES.

Question. Should cuts be made across the board on welfare benefits?

Answer. A daily contact with and working knowledge of loopholes and inequities should be brought to light so that changes can be effected where needed.

Question. Where should the cuts be?

Answer. The most apparent place to begin is Medicaid. All Medicaid paid transportation should be abolished with the exception of an ambulance called in a life-threatening situation that is to say, without the ambulance paramedics and immediate transport by same to hospital, life would have ceased), and those with permanent handicaps which are readily apparent to the eye. Medicaid should no longer pay for diet and water pills or visits to a doctor's office for such a purpose; it should not pay for tranquilizers unless prescribed by a psychologist or psychiatrist treating the recipient for mental distress.

Question. Are there other cuts that should be made in the AFDC program?

Answer. Of course, many. For example, under the new 10/1/81 regulations, and AFDC grant of $10.00 or less will result in no money to the recipient, but the case will remain open as Medicaid only. That should be done away with and the case should be closed entirely. If the income is high enough to lower the award almost to the closure point, then the recipient should be able, through her employment, to provide basic medical coverage for herself and her family.

Question. What loopholes should be tightened?

Answer. Several come to mind immediately, the first of which should be a complete overhaul of the appeals process. Currently if a recipient's case is closed—let us say for a 10/81 board action date—and she appeals within 13 working days, the case will be reopened during the appeal process. Let us suppose her AFDC award, at the time of the 10/1/81 closure, was $225.00 per month, and her case was closed for financial ineligibility. The recipient appealed 10/8/81, and the case was reopened (closure action rescinded). The award of $229.00 per month is granted to the recipient from 10/1/81 until the appeal is finalized, which may take four or five months (average length of time). During this appeal process, the recipient is receiving full AFDC benefits, food stamps, complete Medicaid coverage, and all of the income she derives from employment. If the appeals officer finds for the Welfare Department, the case is closed again effective the soonest possible board action date. However, if the 10/1/81 appeal is not finalized until, let us say, 2/6/82, the soonest possible board action date would be 3/1/82. Therefore, the recipient would have received $229.00 per month AFDC money for five months totaling $1,145.00. The DPW would, of course, try to recoup; however, it is unlikely the money will ever repaid—at least in full.

The procedure should be that recipients can appeal, but will receive no monies (AFDC) nor attendant benefits during the appeal process. If the appeals officer finds in favor of the recipient and not the department, a retroactive check for the full amount owed could be issued within 30 days, but the recoupment is most liable to net the DPW little, if anything, in the way of financial reimbursement. This is again speaking only of monies: in addition, if the recipient loses the appeal, there can also be food stamp claims made against her, and Medicaid expenditures are simply written off as a loss. The appeals process, as it now stands, is a positive reinforcement for lying and committing fraud.

Another loophole is CETA (and the like) incomes which don't affect AFDC award amounts and sometimes not food stamps. (SSI is another income which is "free.") A payee-only mother receiving $199.00 SSI per month can also work for CETA (both incomes will be disregarded for award budgeting), have one or more children receiving AFDC, get food stamps and complete medical coverage on the children. She would, in reality, have three incomes, but only one (AFDC) would count; the rest would be ignored just as if it were not coming into the home.

A third loophole is tied to the new 10/1/81 laws regarding 150 percent poverty level closures. Now recipients, unhappy because their income level closed their cases, can quit their jobs and be rewarded for doing so by receiving full AFDC awards, maximum food stamp grants (based on individual incomes), and total Medicaid coverage. The 150 percent poverty level law came to the welfare office only half complete: the lacking half should have stated that any recipient who quits a job or forces an employer to terminate her by any means not previously documented in her work record (e.g., bad attendance, constant tardiness, inability to do work), should not be allowed to reapply for AFDC for 12 consecutive months after the date of quitting or termination.

A fourth is a situation (very common) where the recipient lives common-law with her boyfriend who is employed or receiving unemployment compensation, SSI, SSD, VA, etc. They live together as man and wife but are not legally married. AFDC cannot count his income when budgeting the mother's award. Therefore, all monies received, from whatever source, by the common-law boyfriend is "free money", and can be used by both the AFDC recipient and her boyfriend. It can also be used to benefit the recipient children, but still it cannot be counted or budgeted.

Still another loophole, as well as a hidden benefit, is found in subsidized housing, most notably Section 8. A recipient with one child is enabled, by acceptance into Section 8, to live in a house or apartment for which the total rent is $300.00 per month and pay only $10.00 to $25.00 per month in rent. In addition, if they must pay utilities, they qualify for subsidized energy programs (e.g., Project Heat, Project Safe, trustee aid).

These are only a few of the most notable loopholes that should be dealt with immediately.

Question. If the Congress has made a half-hearted stab at strengthening the laws and tightening some loopholes, why would anyone want to be on or stay on welfare?

Answer. Since the institution of the Great Society, women and men have been rewarded and given constant positive reinforcement for illegitimacy and dependency. America has become infected with the "Chrysler Corporation Syndrome": Lee Iacocca says, "Buy a Chrysler, get a check," Uncle Sam Says, "Have a baby, get a check." Because of this egregious attitude, America is now entering fourth generation welfare recipients within families. AFDC has become Star Trek's Tribbles: it generates itself and reproduces at will and uncontrollably. The horrifying part of this is that recipients and future recipients now deem it their right to be cared for by the working class; they demand their every want and need be satisfied by the taxpayer money, and they get it with every increase in their monthly AFDC checks for each child spawned and each job lost or quit. Unwed fathers or "runaway daddies" have been encouraged in promiscuity and irresponsibility because the taxpayers dig deeper and deeper to take care of however many children are sired. So long as recipients are rewarded for continuous reproduction and not working, welfare is the closest they will get to heaven on earth.

This in only an ice cube chipped from the tip of the iceberg of AFDC and far from a comprehensive look at the inner workings of the entire program. However, it is a beginning and hopefully some statement or thought herein will have disturbed someone enough to begin to probe into the problem areas in the program. Hopefully, this will be done in conjunction with those who are in closest touch with the flaws of AFDC.

During the 12/7/81 hearings in Indianapolis, a director of a multi-service center stated that if the bread and circuses did not continue, violence could be the end result. She also stated that employees at the multi-service center feared for their safety if further cutbacks were made. Unfortunately, the appalling fact is that recipients have become so dependent upon being taken care of, she may be correct in her assessment. That does not alter the fact that further cuts and vises are needed and must be brought about immediately. The consensus among recipients now is that drawing AFDC, food stamps, Medicaid, free day care, free lunch programs, basic grants, supplemental grants, SSI, work study monies (preferably all simultaneously), and on and on, ad infinitum, is an innate right. They do not worry about graduating from high school, learning a trade or skill, getting a job, or building a home into a strong family unit. They are being paid not to. Recipients call their monthly AFDC check their paycheck, or refer to the first and 16th (welfare distribution dates in Indiana) as payday.

The Honorable Andrew Jacobs once asked if each child born and added to the AFDC award was actually a net gain for the parent? The answer is yes. AFDC increases the monthly allotment, food stamp amounts go up, Medicaid cares for all medical needs, the trustee pays book rental and provides school clothes, coats, shoes, and boots, WIC provides formula, milk and eggs, Title XX provides free day care, WIN provides up to 90 day paid child care, schools provide free lunches. Yes, each child is a net increase in the recipient mother's pocket since all of its needs are provided for by others. Once again there is positive reinforcement and reward for another child dependent upon taxpayer assistance. Even the words that are used to describe AFDC reinforce the positive aspect: award, grant and allotment. Positive reinforcement must be stopped: AFDC must use a negative approach to keep people off of welfare. Drawing welfare cannot continue in the role of safe haven.

One of the committee members asked the question during the Indianapolis hearing on 12/7/81, "What is enough? When is enough truly enough?" The answer is instantly and unbelievably simple. Enough is enough when it is no longer profitable to be an AFDC recipient, the key word being profitable.

There is more that a little something wrong with a constitutionally elected body that continues to permit an overburdened constituency demanding immediate reform to be unceasingly taxed to support what has become a giant cancer threatening to devour everything and anything that can be sucked into its maw. The non-working, non-productive segment of our society that feeds upon handout after handout, is continuously rewarded for performing and behaving as it does. The working, taxpaying population is, on the other hand, continuously penalized for working, paying taxes, getting married, and being productive members of society. Ask any caseworker: the overwhelming majority feel impotent before a confusing, debilitating morass of inequalities and legalities they are helpless to correct and powerless to change.

Mr. **Gradison**. My concern is that we have heard a number of witnesses today indicate the budget cuts made to date have had a serious impact on a serious number of people. Now we have, not directly from Mrs. Sanford but from the Senator, a statement attributed to Mrs. Sanford saying that in her opinion few, if any, of the clients will be adversely affected by the budget cuts. She is on the firing line, and we ought to give her a chance, on the record, to say whether her statement is true or not.

Mr. Jacobs. I simply say that we have held some witnesses who have been scheduled for quite some time, and if that lady's testimony can be included in writing, I think that would be the better procedure.

I can tell you that if Senator Bosma said that she said it, it is true.

Mr. Gradison. I am not questioning that. My desire is to build a factual record, and be sure that questions related to this statement could be included, and if we have the permission of the committee, I would simply request that Mrs. Sanford consider submitting a written statement which we then could share with all the members of the committee. I think that would be very helpful to us as we assess today's testimony in an attempt to reach decisions about its implications for future policy.

Mr. Jacobs. Without objection, that will be ordered, and we could have further hearings at a subsequent date if Governor Orr will let us.

Mr. Matsui.

Mr. Matsui. One of the areas you talk about—prescriptions—Mr. Schweiker testified on before our committee, I believe it was in March. He was proposing conceptually a number of different ways of reforming the medicare and medicaid system. One way he suggested was to allow States to prescribe pharmaceutical drugs on a generic basis and supply them from State-run entities. For example, a State pharmaceutical drug company or something of that nature, for the provision of prescribed drugs for the entire State. That would reduce the cost of these pills that people are taking to reduce their weight and a number of other things.

Would you favor something like that?

Mr. Bosma. In Indiana, you can prescribe generic drugs.

Mr. Matsui. I understand that, but our regulation at the Federal level creates problems for you doing that?

Mr. Bosma. I am not aware of the problems.

Mr. Matsui. I am talking about a State dispensary. They could not go to a local pharmacist, for example, and this would cut out the middleman. That would reduce costs somewhat, tremendously, I would imagine.

Mr. Bosma. As long as we are funding the program with State dollars, I see nothing wrong with doing it the least expensive way.

Mr. Matsui. Mr. Schweiker will be coming out with a number of recommendations probably in the next few months. Bear in mind, some of the drug companies may not be too excited about some of these proposals, if Mr. Schweiker, in fact, carries out the promise that he made before our committee to come up with administrative proposals to deal with the medicaid reductions.

Mr. **Bosma**. I would, of course, have to be convinced of the actual savings that are going to be involved, too. This is another thing.

Mr. **Matsui**. I want to see it also. Thank you.

Mr. **Jacobs**. If there are no further questions, Mr. Bailey?

Mr. **Bailey**. One very quick statement.

Senator, I don't want to challenge your source of information, but the arithmetic is very clear, someone who is going to derive any earnings, AFDC payments, for example, that there is not a net income loss, because there is, and very, very clear.

Somebody in Indiana has got to be affected.

Mr. **Bosma**. I am sorry, sir. What part of my testimony are we talking about?

Mr. **Bailey**. We have got a statement here prepared by staff that indicates a significant change as a result of a combination of factors that would affect some of the families that are aid recipients in your State, a significant number, and it is hard for me to understand.

Unless you are set up totally different in a way that I can't understand, that you have certain areas where people aren't affected by those changes?

Mr. **Bosma**. Sir, if any of them would be affected, it would be in the Marion County area. The portion of the county that I represent may not be totally touched by this, but certainly, the welfare worker who works here in Marion County serves all of those people who are clients or they come from all over the county.

Mr. **Bailey**. I will close with a prediction, and that is, if economic conditions continue, you are going to see significant changes in people that are affected by these programs, because unquestionably their real income drops.

The President, no one questions that.

Chairman **Rostenkowski**. Mr. Sells, Mr. Wright.

Welcome, Mr. Sells. If you will identify yourself you may proceed with your testimony.

STATEMENT OF DALLAS SELLS, DIRECTOR, REGION 3, UNITED AUTO WORKERS

Mr. **Sells**. My name is Dallas Sells, regional director of the United Auto Workers for region 3, which covers Indiana and Kentucky.

I would like to submit my testimony in the interest of time.

Chairman **Rostenkowski**. Your entire statement will be included in the record, if you would like to summarize.

Mr. **Sells**. I have four statements to clarify the record.

The question of private sector in Indiana, in Indianapolis can be questioned, because while they did give $30 million toward a $70 million domed stadium and provided $700,000 for bricks for the circle, we had to extend the United Way drive for 3 weeks, because they couldn't meet their goal, so I guess it depends upon whether it is for a building or for people that the interest is there.

Did these cuts affect the city of New Castle, which is a Chrysler town, that is their main business? The incidence of suicide attempts have increased, and in the last year, the age of the attempted suicides have dropped from age 54 to the age of 34.

It is because of the unemployment problems. We did have the highest unemployment last year in the Nation at one point. I was surprised to hear the State say they have not been running a deficit. They will be broken on July 4 of this year, and yet their position is they are not going to increase taxes.

They are going to play around with some methods of increasing the State revenue without increasing taxes by collecting taxes early to meet some Federal or State judgments that they have to meet.

Would the State do a better job, the safe program, energy program? Last year, the average that was paid to the poor people in this State was $700 on the average.

They have now just changed the rule to say, for example, if an autoworker gets $1,000 a month, he works January, February, and March of this year, he becomes unemployed. They assume he worked for the full year and will be denied any of this benefit toward the safe program, and the average that will be paid will only be $100 so we agree with what one of the Senators here said, that simply shifting the responsibility to the State does not solve the problem.

I agree with what Congressman Jacobs said, that the worst possible program is revenue sharing.

I think that the government officials at any level who spend it ought to be responsible for raising it.

Chairman ROSTENKOWSKI. Thank you.

[The prepared statement follows:]

STATEMENT OF DALLAS SELLS, DIRECTOR REGION 3, UNITED AUTO WORKERS

My name is Dallas Sells. I am Director of UAW Region 3, which covers Indiana and Kentucky. In my remarks today, I want to describe the sorry state of the auto and farm machinery industries in the nation, the Midwest region, and the states of Indiana and Kentucky. I want to convey to you what is at stake for Indiana, Kentucky, and the nation if further federal budget cuts go through.

THE CONTEXT

The U.S. auto industry has been in a major crisis since March 1979. In 1980, the U.S. auto industry suffered the worst financial year in the history of world business, losing upwards of $4 billion. The torrent of red ink goes on. Sales are running at the lowest rate since 1961, when real GNP was less than half what it is today. As many as 2 million Americans have collected unemployment insurance at some point in the last three years as a result of the auto industry's slump. Throughout the Midwest, that slump has reverberated through every corner of the economy: UI funds have run out, tax receipts have tumbled, schools have closed, workers who don't know a Toronado from a tornado have found themselves without jobs or with lower earnings. Crime soars, property values fall, mortgages are foreclosed; evictions have tripled, suicides have risen, and bread lines and soup kitchens have staged a comeback from cruel memory.

And things are actually getting worse. Domestic new vehicle sales in 1981 are running 5 percent below 1980 levels, and only a recurrent series of price rebates has kept the import share from rising above its 1980 record. In Indiana, plants are closing so fast that newspapers no longer deem the fact newsworthy enough to write about. Across my Region of the UAW, hundreds of thousands are unemployed. In Anderson and Kokomo, official joblessness stands at twice its 1978 levels. As the table in my written submission shows, in August—even before the latest economic nosedive—Indiana had lost 11 percent of its manufacturing jobs. Kentucky had lost 8.5 percent.

MANUFACTURING JOB LOSS

	August 1981 (thousands)	1978 annual average (thousands)	Loss (percent)	August 1981 unemployment rate (percent)
Indiana	661.5	741.5	−10.8	8.7
Anderson	19.4	25.9	−25.1	10.9
Elkhart	35.1	44.7	−21.5	7.6
Evansville	36.3	39.7	−8.6	7.4
Fort Wayne	55.1	61.7	−10.7	7.9
Gary				
Hammond				
E. Ch.	91.4	102.6	−10.9	10.4
Indianapolis	122.2	131.1	−6.8	7.9
Lafayette-West Lafayette	11.4	12.5	−8.8	5.9
Muncie	12.3	14.4	−14.6	11.1
South Bend	30.8	34.6	−11.0	7.8
Terre Haute	14.9	17.4	−14.4	8.5
Kentucky	271.9	[1] 297.2	−8.5	7.1
Lexington-Fayette	29.8	[1] 31.2	−4.5	4.1
Louisville	93.4	[1] 109.4	−14.6	8.3

[1] 1979 annual average

Indiana is an auto state; relative to the size of its workforce Indiana is the second most auto-dependent state in the nation. In 1978, some 68,000 Indiana workers were employed in the manufacture of motor vehicles and parts; today, the figure is only about 43,000. Slumping domestic auto sales have caused massive layoffs at Ford's facilities in Connersville and Indianapolis; at Chrysler's Kokomo, Michigan City, New Castle, and Indianapolis plants; and at GM's facilities in Anderson, Bedford, Indianapolis, Marion, and Muncie. On top of these Big Three cuts, we estimate that over 150 Indiana parts-supplier plants have either shut their doors or laid off more than 50 percent of their employees since early 1979.

The crisis extends beyond auto. Slammed by recession, high financing costs, and a flood of imported tractors, agricultural implement workers are also hard hit.

Nearly all of these are small tractors, being brought in from Japan by U.S. based producers to fill a void created by the domestic firms' failure to service that market. In addition, the U.S.-based farm equipment makers are binging in more and more medium-sized tractors from their European subsidiaries. This trend can only intensify as high interest rates maintain an overvalued U.S. dollar, making imports even cheaper.

ADDING INSULT TO INJURY

Budget cuts in this period are bringing incalculable damage to an already devasted region. Time does not permit me to cover all of the cuts—actual or threatened—in social service programs endured or hanging over the people of Indiana and Kentucky. Therefore, I will concentrate on the cuts already made in the public assistance programs that fall under your committee's jurisdiction; my Michigan UAW colleagues will cover other cuts at your session in Detroit tomorrow.

The Aid to Families with Dependent Children (AFDC) program is the main federal program protecting families from the worst revages of poverty. Many UAW members have had to turn to this program for help as their SUB, TRA, and unemployment benefits have been exhausted. Changes in the program cut aid for hundreds of thousands of American families and reduced benefits for thousands more, many of whom are Indiana and Kentucky residents and UAW members.

The so-called "savings," which result largely from changing eligibility rules and benefit formulas, are expected to total $1.2 billion in the current fiscal year. Over 400,000, or 10 percent, of the 3.9 million American families who had been receiving help have had or will have their benefits cut off, and 8 percent (nearly 300,000 families) have had or will have their benefits reduced. In Indiana and Kentucky, over 10,000 families, or almost one in every eight receiving AFDC benefits, have been or will soon be cut from the program or receive sharply reduced benefits.

The Low-income Energy Assistance Program has been capped at $1.9 billion, cutting the program by nearly two-fifths. Some may lose assistance because of changes in the Aid the Families with Dependent Children program; families eligible for AFDC also are eligible for energy assitance. The recent changes in the AFDC program which have forced thousands off that program may result in disqualification for energy assistance unless affected families can meet other eligibility requirements of the program.

The Social Services program under Title XX of the Social Security Act provides for a variety of social welfare programs; it was reduced by 23 percent of $2.4 billion. The federal "safety net" in these programs for the financially needy has now been removed, whatever the President says. States are no longer required to target half of federal services monies to their low-income population. This means that decisions about allocating funds for services to the needy are now left totally up to the states. The states, I regret to say, have demonstrated at best uneven commitment toward providing public assistance.

Under the Supplemental Security Income (SSI) program, which provides basic income assistance to the needy, aged, blind and disabled, states are now required to use what is called "retrospective accounting" to determine benefit amounts. This calls for using the prior month's income to set the benefit level for the month ahead. Under the old rules, a person's expected income, which the benefit was to supplement, was used to determine the benefit level. The change reduces benefits for persons whose circumstances were better last month than they are now, even though it is the current situation for which help is needed.

CONCLUSION

These attacks on those most in need must stop. Reaganomics is a war on the great majority of working and poor Americans. It is time to terminate this kind of economics. In Indiana and Kentucky, our very survival depends on it.

Thank you.

Chairman ROSTENKOWSKI. Mr. Wright.

STATEMENT OF MAX WRIGHT, SECRETARY-TREASURER, INDIANA STATE AFL-CIO

Mr. WRIGHT. I am Max Wright, secretary-treasurer of the Indiana State AFL-CIO, and have served in this capacity for the past 23½ years. I am happy to speak in behalf of the nearly 500,000 members of organized labor and the citizens of Indiana who are affected by the financial cuts now in effect or that will be in effect the next fiscal year.

These cuts will affect adversely unemployed, underemployed, displaced workers due to plant shutdowns or plants moving, who desire, and need, to be retrained for new job opportunities as they become available. In testimony given by me before a Senate subcommittee, I said:

> Employment status should be the main factor used to determine an individual's eligibility for services. Overall employment and training services should be made available to any U.S. citizen who is either unemployed or underemployed. However, limits and conditions for specific services must be set up.
>
> For example, specific services, such as upgrading and retraining should be provided for workers displaced as a result of plant closing or relocations and technology advances. By providing such special services, many individuals can be trained more quickly since these individuals have an employment history and job skills which indicate they will be readily employable after training.

With the cuts that are now in place, there will not be enough funds to do this needed retraining.

I have the opportunity to serve on several boards that are recipients of Federal funds. These cuts will affect adversely the services that will be available to those who need the aid that adequate funds could provide. The areas I will address are: One, vocational education; two, employment security; and three, senior citizens.

One, vocational education: The cut in Federal funds for vocational education for 1982 compared to fiscal year 1981, meant a decrease from $18,802,390 to $16,227,962 in vocational funds flowing to Indiana through the State board of vocational education—Public Law 94-482.

This cut in Federal vocational funds has meant an 8-percent reduction in maintaining ongoing programs and implementing new vocational programs.

It has meant a 25-percent reduction in program support services and program improvement activities.

Further cuts would mean that fewer dollars would be going into an already inadequately funded program.

Two, employment security: As a result of the last 17-percent administrative budget reduction in employment service, the Indiana Employment Security Division reduced employment service staff by 168 positions. This reduction resulted in our completely closing six local offices, and partially closing a seventh.

Some unemployment insurance personnel were eliminated as well. We have also closed 10 itinerant offices to save nonpersonal service dollars.

The recent amendments to the Trade Act of 1974 had the effect of eliminating 40,000 claimants out of a total of 64,500 who were previously eligible for benefits. For those remaining eligible, the maximum weekly benefit amount under TRA was reduced from $289 to $141. Clearly, this has had a significant impact on TRA claimants.

In the face of budget cuts, section 454 of the Social Security Act has been amended to require State employment security agencies to "intercept" unemployment compensation benefits for claimants who have a support order against them which is being enforced by a child support agency.

This will not only deprive claimants of some or all employment compensation, but will also throw an enormous administrative burden on the employment security division. This requirement is not funded and it is questionable as to the ability of the child support agencies to pay for it.

The amendments to the Federal-State Extended Benefit Act are clearly designed to make qualification for extended benefits much more difficult. The possible effect of the amendments can be easily illustrated.

Indiana triggered on extended benefits on March 22, 1980, and we triggered off June 13, 1981. If the recent amendments had been law in 1980, Indiana would have had a 13-week extended benefit period rather than a 14-month period.

Three, senior citizens: The moneys allocated for senior citizens does not take into consideration inflation. Therefore, there will be less for services to the elderly poor who qualify. The continued rise in utility rates affects many seniors in our State and Nation. Therefore, additional hardship faces those who reside in their own homes.

Chairman Rostenkowski. Thank you very much, Mr. Wright.

Any questions?

[No response.]

Mr. **Jacobs**. Well, Mr. Chairman, I would like to express my appreciation for the testimony of a couple of top labor leaders in the State, and I think the committee especially expresses its appreciation to Mr. Sells for summarizing.

Chairman **Rostenkowski**. Thank you very much, gentlemen.

Mr. Heiny, Ms. Burse, Mr. Powell, and Mrs. Ginder. Welcome. Mrs. Burse, identify yourself and proceed with you testimony.

STATEMENT OF DOROTHY BURSE, DIRECTOR, CITIZENS MULTISERVICE CENTER

Ms. **Burse**. Dorothy Burse, director for Citizens Multiservice Center, and I would like to express my appreciation to this committee for having an opportunity to talk with you for even a short time about something that is very important to me.

I would also like to express my thanks to the committee chairman for hearing him say that what you care about today is people, that you are here because you want to know how the budget cuts affect people and people are what we represent as citizens at the Multiservice Center.

If I were not afraid and nervous before I appeared here today, after hearing some of the testimony from agencies that represent the poor, I am afraid at this point.

I cannot tell you how future budget cuts will affect the poor, because I don't have a crystal ball that will let me see tomorrow, but I can give you a very good look today.

At the Citizens Multiservice Center, we have received reductions in funding for the last 3 years. A budget that at one point was around $189,000 is now $135,000 and that is from all sources, community development block grant, CETA, and title XX.

We have lost 50 percent of its staff since January 1981, while the number of individuals requesting our services has tripled. Our funding sources require a monthly report that shows the number of individuals served, a nonduplicated count. The statistics showed 969 individuals in January 1981, 915 in February 1981. By June 1981, the count was 1,131, September, 1,648, and November, 2,174, and this is a typographical error. Our November figures are not in yet.

So as dollars for service decrease, the need for service increases.

Until June of this year we used CETA workers to support and supplement staff. A very important employee was a CETA participant. Our van driver had the responsibility of transporting senior citizens and handicapped persons to doctors appointments, hospital appointments, served as food stamp proxy for handicapped persons unable to leave their homes to pick up their food stamps, occasional grocery shopping trips and many other support services that permitted senior citizens and handicapped persons to participate in programs and services designed for their benefit. Most of these services have had to be discontinued since the CETA program was phased out.

Particularly those services for senior citizens and handicapped.

They depended on our drivers to come to their homes and get information as to their needs. They were driven to doctors appointments, grocery shopping trips.

With the cutting out of all title VI programs, we lost all of that staff, and our budget at the Multiservice Center did not allow for replacing those staff members.

At this point, we have managed to have a part-time van driver. He worked 6 hours and we can afford to pay him for 4; and that is time enough to get the senior citizens to our hot lunch program and get them back home.

It is true that the senior citizens maintain their social security check.

It does not get an increase that takes care of the other increases that are coming along, but the social security check, without many of the support services that we provided as a funded agency, mean that a social security check that was already stretched to the breaking point has no more give in it.

I was surprised to hear today, somebody that said, "Everybody will just have to sacrifice." The people that we see on a regular basis have nothing more to sacrifice than their life.

I talked to a senior citizen. Her food stamps didn't come, because her granddaughter that is necessary to help care for her moved into a house, and they can't get information on the daughter.

She said, "OK, we are going to understand it all better by and by." I wonder if we have to wait that long, or can communities such as this, by listening to the real needs of the poor, take some action that will help offset the very adverse budget cuts that we are getting, and I am not talking all the time about the ongoing poor.

I am talking about the new poor, the working poor, and an emerging poor. The ongoing poor, who I understand will be with us always, they have learned to cope. The new poor has not yet learned to cope.

We had a young man in the center who had been employed at Chrysler for 10 years but has been unemployed since last June, and his benefits have about run out, but at the time he was an employee for Chrysler, he got married, had a family and owns a home, and he is not prepared to cope with no job.

He has $2.05 worth of surplus in his budget, and that makes him ineligible for food stamps at our center so when we try to explain to him the new regulations, he reacts like we are afraid the reaction is going to be silent.

He tells my receptionist, "OK, lady, you are sitting behind that desk, you got a job. You don't know what it is like without a job, as soon as somebody comes up here and puts a gun in your face, you will understand."

We find that the poor will reach out and strive or struggle when there is a challenge in place. We find that they break under stress, and I think that that is the fear that we have at the center.

Sometimes we feel that our own safety is jeopardized, because they take out their anger and frustration on whatever is closest.

A writer once said that the strength of the nation will be found in the homes of its people. If your communities are strong, then your nation is strong. What we see is destruction at the community level. As the hard times get harder, as the hostilities increase and as violent reactions take place, it is our sincere hope that we will not have to face this.

Miss Liberty stands very proudly in our harbor, and it says to all the world, "Bring me your tired, your hungry and your poor," and I ask you today, unless we do something about providing a safety net for those we already have, why should we ask for more?

[The prepared statement follows:]

STATEMENT OF DOROTHY L. BURSE, DIRECTOR, CITIZENS MULTISERVICE CENTER

First I'd like to say thank you for giving me this opportunity to talk with you for even a few minutes about something that is very real. The deep concern that many of us share for those persons clutching desperately to the ledge of life with anxious eyes searching for and wondering about the strength of the "safety net" that has been promised. I am talking about the poor, the on-going poor, who it is said will be with us always, the working poor and the newly emerging poor.

I cannot today tell you exactly how budget cuts will effect us as the full impact of the present cut back and proposed cuts is just beginning to surface. I wish I could say "Oh we'll survive, we'll just back up and start again, or okay, we'll just tighten our belts another notch". But I cannot say that. Our backs are already to the wall. There is no more give in the belt. I cannot look into the crystal ball of tomorrow, but I can tell you about today.

Citizens' Multi-Service Center is located in one of the poorest, most depressed areas in the city of Indianapolis. We see on a daily basis the many faces of the poor. We see hope turn to despair, defeat accompanied by defiance, healthy opposition become unhealthy hostility as costs of goods and supplies increase, job opportunities, services and employment decrease.

Citizens' Multi-Service Center has lost 50% of its service staff since January of 1981. While the number of individuals requesting services has tripled. Our funding sources require a monthly report that shows the number of individuals served, a non-duplicated count. The Statics showed 969 individuals in January of 1981, 915 in February of 1981. By June of 1981 the count was 1,131, September, 1,648 and November, 2,174. So as dollars for services decrease, the need for service increases.

Until June of this year we used CETA Workers to support and supplement staff. A very important employee was a CETA participant. Our van driver had the responsibility of transporting senior citizens and handicapped persons to doctors appointments, hospital appointments, served as food stamp proxy for handicapped persons unable to leave their homes to pick up their food stamps, occasional grocery shopping trips and many other support services that permitted senior citizens and handicapped persons to participate in programs and services designed for their benefit. Most of these services have had to be discontinued since the CETA program was phased out. Now, even though they may maintain a social security check that was already stretched to the limit, the support services that made life a little better has fallen away. In a time before the present cuts, it was our unpleasant duty to respond to a call for assistance and find a woman frozen to death in a chair, with the only heat in a very large, rambling deteriorated house being the burner on a gas stove. What will we find this winter as the cost of fuel increases, Project Heat and Project Safe funds decrease.

We face a very critical time with staff that is too small, client flow that continues to grow, escalating cost and deminished resources.

We recognize that something needs to be done. We sincerely feel budgets must not be balanced on the backs of the poor, many of whom have neither the skills or the expertise to generate immediate new methods for survival. I am not talking to you today about the group most often read about and exploited -- the welfare mother who arrives at the food stamp office to pick up her stamps, driving a Cadillac. I am talking to you about a woman crippled with arthritis who cannot get to the food stamp office unless we assist her. I'm talking about a man considered legally blind, who when we lost our full time van driver said he didn't know what he was going to do if Mr. Victor wasn't there with his strong young arms to serve as his eyes. I am talking about a ten-year employee of Chrysler laid off since spring, benefits have run out, who came on a daily basis to see if we knew of any job openings and finally in desperation said "before I see my children go hungry, somebody is going to pay". A young man who is told that because of the new regulations, he is ineligible for food stamps takes out his anger and frustration on the only available person, the Center receptionist and says "you have a job, you don't know what it's like out there but when somebody comes up here and puts a gun in your face you will know."

How do we continue to survive and provide comprehensive services? Is our own personal safety threatened by decisions over which we have no control?

The numbers of people seeking services increase. They look to us for help, we must look to you for help. A writer once said "the strength of a nation begins in the homes of its people. If your communities are strong, then your nation is strong. Inflation, recession, rising unemployment, funding cuts, cut backs in service, these are the ingredients for breakdown of families, emotional and moral decay that gives birth to destructive forces running rampant through communities and everybody loses. If our country is to remain the great country that it is, somebody must sincerely care about the plight of the poor.

Miss Liberty stands proudly in our harbor, holding aloft the light of hope and promise and proclaims to all the world "bring me your tired, your wounded, your poor. I ask you why? Since there seems to be holes in the net of safety for the ones we already have.

[illegible] K. [illegible] - Director
Citizen's Multi Service Center
611 E. 17th St - [illegible]

What Is Citizens Multi Service Center?

Citizens Multi Service Center, Inc. is a federally funded Human Services agency, located in Center Township, in the heart of Indianapolis central city. Our primary service area, is the area designated for the Indianapolis Model Cities projects. This area could qualify for the demonstration grant because social and economic conditions that existed and the inability of residents to overcome, without assistance the obstacles that prevented thier reaching thier full potential as useful, productive members of society.

Citizens Multi Service Center was born during that time and today has the same goal of moving individuals and families from dependant status to independant living.

Services include :

Intake for both Social Services and Employment and Training Services.

Individual and Family Counseling

Food Stamp casework and Food Stamp sales

Welfare casework and services

Crisis intervention

Family Services Assn. Services

Emergency food and clothing, housing search and assistance.

We have the responsibility of responding in a positive manner to whatever situation brings an individual through our doors.

Our companion organization Citizens Neighborhood Coalition Inc. uses Community Development Block Grant Funds to improve the physical needs of the area, as enviornmential conditions have a profound effect on social health and well being.

Citizens' Multi-Service Center

Services Offered:

CORE Staff Services Include:

- **Information**
- **Counseling**
- **Employment & Training Assistance**
- **Emergency Food**
- **Housing Search & Assistance**
- **School Clothing**
- **Discount Bus & Taxi Tickets**
  - **Senior Citizens**
  - **Handicapped**
- **Emergency Transportation**
- **Youth Projects**

Agency Services Include:

- **Food Stamp Counseling & Dist.**
- **Welfare Casework**
- **Family Service Ass'n**
- **Marion Co. Branch Library**
- **Senior Citizens Nutrition Program**

Citizens Multi-Service Center was constructed under a Neighborhood Facilities Grant as a part of the Model Cities Program. It was built for you....OUR NEIGHBORS.......

WHAT DOES A MULTI-SERVICE CENTER MEAN TO YOU ? ? ? ?

TO THE STAFF AT CMSC.......IT MEANS.....HELPING WHEREVER THERE IS A NEED......

We are dedicated to Service to the Community AT NO COST....to persons of low or fixed income who live in CENTRAL CITY................

SPONSORED BY THE CITY

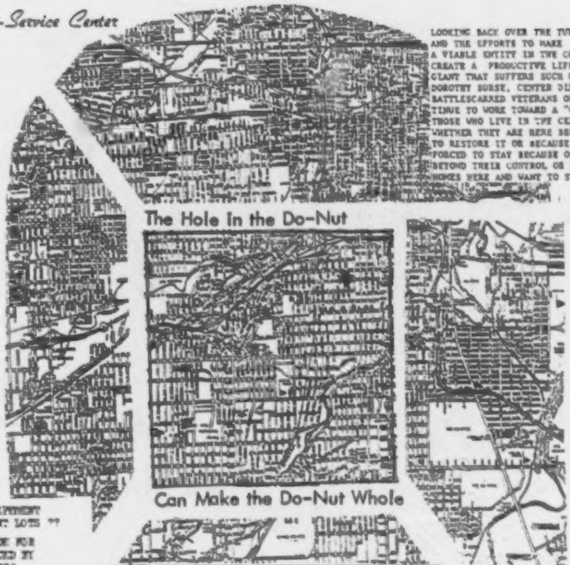
FOR THE PEOPLE

OF INDIANAPOLIS...........

Citizens' Multi-Service Center

CMSC Serving Central City

801 EAST 17th STREET
INDIANAPOLIS, IN 46202
926-2361



LOOKING BACK OVER THE TURBULENT YEARS AND THE EFFORTS TO MAKE THE "INNER CITY" A VIABLE ENTITY IN THE COMMUNITY, TO RE-CREATE A PRODUCTIVE LIFE-STYLE FOR THE GIANT THAT SUFFERS SUCH GRIEVIOUS ILLS: DOROTHY BURSE, CENTER DIRECTOR, AND OTHER BATTLESCARRED VETERANS OF THESE WARS CONTINUE TO WORK TOWARD A "GOOD LIFE" FOR THOSE WHO LIVE IN THE CENTRAL NORTHSIDE, WHETHER THEY ARE HERE BECAUSE THEY WANT TO RESTORE IT OR BECAUSE THEY HAVE BEEN FORCED TO STAY BECAUSE OF CIRCUMSTANCES BEYOND THEIR CONTROL OR BECAUSE THEY HAVE HOMES HERE AND WANT TO STAY...........

WHAT DOES METROPOLITAN DEVELOPMENT PLAN TO BUILD ON THE VACANT LOTS ??

WHAT PROVISIONS ARE BEING MADE FOR PEOPLE WHO WILL BE DISPLACED BY HISTORICAL PRESERVATION ????

EVERY PERSON SHOULD HAVE AN OPPORTUNITY TO BUILD A NEW HOME...HAVE A NEW BUSINESS...HAVE A PICNIC WITH THEIR FAMILIES IN MARTIN LUTHER KING, JR. PARK

A major inner city problem - not just in Indianapolis - but in all large, metropolitan cities, "The Lost Generation" described in the August 7 issue of News Week magazine will continue to be addressed at CMSC.........

At CMSC a respectable evaluation is emerging with some members of the "Lost Generation" from our inner city, former drug addicts, alcoholics; mothers who are heads of fatherless households; and others named in the article are learning to come to work regularly with goals for the future that include a profitable job and a positive life-style. They are beginning to understand that coming to work on time every day and working hard all day is not an attempt by "whitey" to put them down but a rule for all persons who want a paycheck and a future on the job.

Expecting programs that deal with the gap between the "Lost Generation" and productivity to be consumated in one year, two years or ten is unrealistic. The giant did not contract and develop this major illness in one, two or ten years and the cure will not take place over night. It is expensive, discouraging and frustrating for those who labor on the battlefields. It is alarming to tax payers who read of CETA workers who "shoot craps" on the job or come to work late or just part of the time.

citizens word
SAT SEPT 1
CITIZENS MU
CENTE
citizen's word
CITIZENS NEIGHBORHOOD COALITION INC.
C M S C
Citizens Multi Service Center

AS LONG AS ONE PERSON WITH A TEN YEAR RECORD OF DOPE AND ALCOHOL ADDICTION CAN ORGANIZE SENIOR CITIZENS AND STREET KIDS AND DIRECT THEIR LIVES INTO A MORE PRODUCTIVE CHANNEL....

CITIZEN'S MULTI-SERVICE CENTER DESERVES A CHANCE TO MOVE FORWARD WITH PLANS TO JOLT THIS SOCIAL ORDER UP A NOTCH TOWARD A "GOOD LIFE" FOR THOSE WHO CHOOSE TO LIVE IN THE CENTRAL NORTHSIDE........................

BUT TO GIVE UP AND THROW ALL OF THE PROGRESS DOWN THE DRAIN BY STOPPING NOW .....WILL BE EVEN MORE DISASTROUS. WE MIGHT WIN THE WAR TODAY BUT LOSE THIS WHOLE "LOST GENERATION" FOREVER.......

IT MAY BE TIME TO RE-EVALUATE AND FIND A MORE EFFECTIVE WAY, LEARNING FROM OUR MISTAKES BUT NOT TIME TO QUIT...........

Nothing is any good if the people that you mean to serve do not know that you are there. This is the first copy of the CITIZEN'S WORD, a means of telling the folk in our area that help is available.

Only a small impact has been made but a giant, bred and nurtured by circumstance, indifference, crime interests, and a bone grinding, vicious circle life style that has almost poured this generation, and many others too, right down the drain.......will need more concentrated efforts, more effective programs and lots of money.......

BEST COPY AVAILABLE

19,000 clients, more or less, were served at CMSC in 1980.....

It's Bumper to Bumper and standing room only on food stamp days, first three Wednesdays of the month......

A Center field trip to the Indianapolis Museum of Art was enjoyed by this group...Many such trips were taken, including on to Conner Prairie. Staff and funding cuts have curtailed programs and will threaten many valuable efforts..

About 1000 people in desperate trouble seek help at CMSC every month. Crisis intervention meets the pressing emergency needs followed by efforts to solve the problem permanently with counseling, education and job seeking help. Programs for senior citizens, teen-agers, kids, community action and education to add to the service.........

1000 information pieces were distributed, on the average, monthly......

Over 100 students from Our Lady of Mt. St. Carmel in Carmel and their parents came for a hallow'een party, bringing 100 pumpkins, apples to bob and a pinata. A great time was had by all. These kids also filled the Center emergency food bank.

CNC, CANDIDATES, NEIGHBORS WORK HARD TO REGISTER VOTERS

The Senior Citizens Nutrition Program has grown from fifteen or twenty participants to an average of fifty daily........

A well-stocked branch of the Marion County Library has special programs, movies, etc., open several days a week.

WE WILL CONTINUE
IN OUR EFFORTS TO
SEE THAT NO CHILD
HAS TO GO HUNGRY..
TO PROVIDE FOOD
FOR ONE DAY UNTIL
SOLUTIONS CAN BE
ADDRESSED—
OTHER VITAL NEEDS
WILL REMAIN HIGH
ON OUR PRIORITIES
FOR SERVICE......

One of the busiest services, transportation to the doctor, hospital, laundromat, grocery, or every day in the Center van ....

BEST COPY AVAILABLE

A very real problem with planning programs at CMSC for Senior Citizens, teen-agers, kids, neighborhood people, is lack of appropriate space at the Center for such activities. A beautiful, new, contemporary structure, there is no room for such development.

The real work of the center is performed from the second floor with reception area, small offices, a conference room, small rest rooms, partitioned space for counselors and a small, two room area used by the director. None of this space is convertible to part time utilization for other purposes.

The first floor contains the Branch Library, an area that accomodates the food stamp delivery, rest rooms, a small kitchen and storage area, a long hallway and one room appropriate for meetings with with two small closet-like offices at each end. There is a large auditorium with strange acoustic problems that does not lend itself very easily to public meetings with speakers or entertainment.

Addressing these facts realistically, program planning must first seek additional facilities that will include meeting or training space, storage for equipment and supplies and the need for an acceptable place to hold meetings or programs. Neighborhood organizations, social services and service to the community programs need specific arrangements that are not now available at CMSC. The present Senior Citizens" activities operate in the kitchen, storage and auditorium areas, restricting expansion or development.

THESE FACTS HAVE MADE NECESSARY IN ANY PLANNING
THE ACQUISITION OF ADDITIONAL SPACE........

Plans for a "Learning Place" have evolved from the space need plus much evaluation of the real needs of the residents of our impact area.

Several months of hard work and planning went into the Plantation. Ambitious development was in the works of programs and facilities that would serve the people best. Funding and resources to accomplish the building and execute the project were secured and in place....

AS DREAMS OFTEN DO.....THIS ONE FELL
UNDER THE WRECKING BALL......
JUST ANOTHER VACANT BLOCK...NOW
ON NORTH PARK NEXT TO THE KROGER STORE.......

BEST COPY AVAILABLE

Chairman ROSTENKOWSKI. Thank you.
Mr. Powell.

STATEMENT OF G. RICHARD POWELL, DIRECTOR, WAYNE COUNTY DEPARTMENT OF PUBLIC WELFARE

Mr. POWELL. I am Richard Powell, director of the County Department of Public Welfare of Wayne County, Ind.

I thank you for the opportunity to appear before you today. My remarks will be limited to matters which pertain to entitlement and categorical benefit programs administered by departments of public welfare in the State.

As a simple preface to my comments, I will tell you that I wholeheartedly support the changes in welfare and food stamps which became effective several weeks ago.

The Wayne County department—together with all the county departments of public welfare in Indiana—was able to implement the changes in AFDC eligibility required by the Omnibus Reconciliation Act (ORA) by October 1. Our staff gave an excellent effort; they gave the extra measure of energy necessary to achieve a difficult task in a very short period of time.

The effect of the new law upon the AFDC program in my county resulted in the closure of 11 percent of the cases. It reduced assistance for 2.5 percent of continuing cases, at an average of $68 per case. It increased benefits for about 2 percent at an average increase of $23. Net monthly reductions in expenditures has been 9 percent.

In the food stamps program, the total caseload has had a net reduction of 15 percent with a commensurate reduction in allotments by 4 percent.

Other provisions of the Omnibus Reconciliation Act which will serve to correct excesses and lack of integrity in these programs will become effective in the next several months as the State enacts necessary implementing legislation and/or promulgates required regulations.

I wish to note here and impress upon you as forcefully as possible that those persons whose assistance has been reduced or discontinued are persons who are employed, or households which have other significant amounts of income or possess resources that could be liquidated but were previously disregarded in determining benefit levels.

Persons without earnings, without countable resources, or without other adults able to contribute to household needs are not adversely affected by the new law. The destitute, the most-at-risk, will continue to receive assistance.

The changes which are yet to be made will also affect those persons who are employed or who have other resources which have not been counted heretofore in computing the amount of their assistance. Among the changes which I hope will be enacted by the Indiana General Assembly will be the requirement that certain persons receiving AFDC must perform public service in exchange for the amount of their assistance.

I fully support the changes in these welfare programs which have already been made by the President and the Congress. The corrections made have been long overdue. However, I go on to suggest that further corrections are called for.

I believe the majority of our citizens have no resistance to sharing their resources to help those who are truly unable to provide for themselves—although I believe they would urgently call for a return to the States and localities of the authority to establish welfare eligibility policy.

We became a strong nation precisely because we have been generous with the poor, the destitute, the homeless, but also because our compassion has been a tough-minded compassion. We believe each and every one of us in the society should be industrious and hard working to the limit of his individual ability. Only when each of us has done absolutely all possible for himself should he permit himself to consider asking for help from public revenues.

We have allowed to creep in an irrational melange of giveaways to satisfy the short term wants of the people and to make up for failure of some of our citizens to plan carefully for their future needs. We no longer have a cohesive philosophy of who is poor, who is at risk.

We seem to no longer have the discipline of such rational thought as to enable us to distinguish between those who truly need our assistance and those who by careless living have placed themselves in less than comfortable circumstances.

We can clearly trace the phenomenon of intergenerational reliance upon public benefits as the family economic system of choice. Entrance to the welfare programs is easily accomplished. A benefits package can be put together with minimal effort by virtually any family who opts for this method in preference to ordinary employment.

A family can receive simultaneously AFDC, medicaid, food stamps, WIC, low income energy assistance, free school lunches, subsidized housing, services under the block grant, and general assistance.

Having made significant improvements in the administration of the AFDC and food stamps programs in the ORA in 1981, I submit that more needs to be done to insure that our welfare programs have only truly needy people as beneficiaries.

One: There must be firm sanctions preventing the payment of benefits when persons voluntarily quit employment or refuse bona fide offers of employment, or of increased employment.

Two: The income, resources and benefits of all adults in a household—not just stepparents—should be deemed to be available to the total needs of the household before welfare assistance can be granted.

Three: A parent should be required to accept available gainful employment as a condition for any AFDC and food stamps assistance regardless of the age of the youngest child so long as the parent is physically and mentally competent for such employment, and the physical and mental condition of all dependent children does not reasonably preclude the parent's employment.

Four: Programs which require work in exchange for welfare benefits in those cases when a person is not already gainfully employed should be mandatory.

Five: Block grants to the States should replace the present system of entitlement and categorical human services programs.

Our welfare and public benefits cornucopia has become for a larger segment of our citizenry than is any longer tolerable an enormous disincentive to work, to moral restraint, to careful living, to the practice of being good neighbors. Each of us to some extent has fashioned his economic planning around a concept of the ubiquitous governmental handout.

Now is the time to rediscipline ourselves and our national purpose. We can never afford to fail in our duty to our citizens who have a just cause to receive our benevolence! But just as surely we cannot any longer afford to transfer money and person-specific benefits to those who can be expected to order the quality and details of their lives in such a way as to meet their own needs and those of their families and to contribute to the common good.

I thank you.

Chairman Rostenkowski. Mrs. Ginder.

STATEMENT OF PAULINE WESSEL, CHAIRPERSON, UNITED SOUTHSIDE COMMUNITY ORGANIZATION

Ms. Wessel. I am sorry, Miss Ginder had a previous commitment and had to leave.

My name is Pauline Wessel, chairperson for the United Southside Community Organization, USCO here in Indianapolis.

USCO is an umbrella community organization covering an inner city area of 65,000 residents. Member organizations of USCO include block clubs, tenant associations, neighborhood groups, historic preservation associations, and social service agencies.

We address a variety of issues which affect the residents and businesses on the south side including community development, housing, city services, redlining, crime prevention, and adequate social service programs.

USCO wishes to thank Congressman Jacobs for his efforts at bringing this hearing to our city today. We are also very pleased to see so many Members of Congress have come to Indianapolis for a first-hand look at the initial results of recent budget cuts and changes in Federal policies.

On behalf of USCO I will address several issues today. Those issues include elimination of the Community Services Administration [CSA] and cutbacks in these funds which have been sent to the States in block grants; cutbacks and possible elimination of the VISTA program; and the recent announcement of the Reagan administration's intent to eliminate the community development block grant program.

The community development block grant, or CDBG, program is absolutely essential to the future of Indianapolis. It is tax money from the cities of our country which are returned for local use, unlike most of our tax money. On the South Side CDBG funds have had a very positive impact on improving our area and leveraging resources from the private sector. To kill this program is sheer nonsense. Let me give you several examples of how CDBG funds have worked on the South Side.

We have a housing paint-up, fix-up program funded at just $31,000. Over 40 homeowners this year, the majority of which are elderly or low-income, have received grants under this program. Elderly people subject to code enforcement citations by public agencies are assisted.

Also, in many cases these grants are combined with loans from cooperating financial institutions to make major rehab possible by writing down the costs of financing.

In one census tract—Fletcher Place—each dollar of CDBG-funded grants has leveraged over 10 private dollars of mortgages and home improvement loans.

This information comes from data available through lenders under the Home Mortgage Disclosure Act [HMDA]. Such grants have reversed a long-standing pattern of redlining, disinvestment, and deterioration in the Fletcher Place neighborhood.

CDBG funds the SE health center in our community and several other similar centers in other sections of the city. It operates with a sliding scale of fees, based on an individual's income. This center was established by residents of our community, and it is both owned and operated by a locally elected board. Without CDBG funds the center would either close up or charge rates equal to private doctors. All the private doctors have already moved out of our community so this service is absolutely essential. The SE health center's client load annually is about 1,600 clients.

Other CDBG-funded programs on the south side either occurring or scheduled are the following: commercial storefront renovation in which grants are matched 50–50 by a merchant's own investment to improve the Fountain Square commercial district; curb and sidewalk replacement to complement other neighborhood revitalization efforts; rehab of 35 units in a public housing project; channel improvements on a creek which causes flooding in a residential area; a senior citizens center; and a rental improvement grant program to offer incentives to owners of multifamily buildings making improvements.

USCO strongly urges the House Ways and Means Committee to take the message back to Washington that the CDBG program must not be eliminated. This is essential for the health of our cities.

The VISTA program provides about $4,000 per year to volunteers working to assist organizations and individuals to fight the causes of poverty. It is perhaps one of the most cost-effective programs the Federal Government has developed. Many neighborhood groups in our city have had VISTA's assigned to work with them.

A few examples of what these dedicated volunteers have done are: establish a series of crime-watch block clubs which reduced the level of crime significantly through citizen involvement and participation; created a neighborhood fundraising committee to raise money for the neighborhood organization's work from private sources; and assist neighborhood residents in developing priorities for use by city agencies in deciding where such improvements as curbs and sidewalks are most necessary.

Why is the VISTA program which assists the poor in our country being cut back, when the companion Peace Corps program to assist the poor in other countries is retained? We request you do all in your power to keep this program in existence and funded at the highest possible level.

The next issue to be discussed is the old Community Services Administration [CSA]. USCO has been a recipient of CSA funds as a delegate agency of the Community Action Against Poverty of Greater Indianapolis. Our funding year just past involved $50,000 of CSA funds. Our contract for use of these funds includes community organizing and block club formation, housing revitalization and economic development activities, referrals to social service agencies for individual problems, and consumer education activities. Over 5,000 low-income people have directly benefited or been served by these funds through USCO.

Even though the national cut to these funds was 25 percent, our resulting cut has been about 70 percent, being reduced to $15,000. Though we realize cuts are inevitable, the administration at both the level of the State and CAAP is such that there are few stipulations as to the use of funds, and few assurances that funds will be distributed equitably among groups representing and assisting the poor. Other neighborhoods with less number of low-income residents are now receiving greater amounts of funds through this block grant program.

Our estimates are that our assistance will be greatly reduced because of these cuts. Many of our activities will either cease or be less efficient. Too much discretion now exists at the level of the State government and the local level.

USCO requests your committee move quickly to restore actions at the Federal level to tighten the monitoring and administration of the community services block grant. There are several options such as requiring additional public hearings, requiring State legislatures to have authority over this decisionmaking rather than just the Governor's office, mandating some type of ratio between funding and the numbers of low-income served, mandating strict reporting and recordkeeping for recipients of these funds, to name just a few.

I again wish to thank Congressman Jacobs, Congressman Dan Rostenkowski, and the other Members of Congress present today for this very important hearing. We look forward to your committee proposals and actions in the near future.

Chairman ROSTENKOWSKI. Thank you.

Are there any questions?

Mr. JACOBS. I would like to express my appreciation to both the ladies for their testimony. Ms. Burse, I am sorry I was not in the room. I have read your testimony, and it is powerful and will be useful to the committee.

Mr. BAILEY. Mr. Powell, you are the toughest guy I have ever heard and I know your heart is in the right place and I know you mean well.

The statistics that you stated may very well indicate a lowering of workload, or your caseload because of people being ineligible.

I want to make a prediction, as people learn, when they realize that by not working they make more money, you are going to see a resultant increase in that caseload, and it points up the fact you would not be very productive going about legislating a program you don't study that well.

I am going to write you a note in 6 months and see how you are doing.

Chairman ROSTENKOWSKI. Mr. Jones, Mrs. Crean, and Mr. Hartman.

We are coming to the conclusion of these hearings, and I am going to ask if your statement is longer than 5 minutes, your entire statements will be included in the record; but I am going to ask you to summarize if it is at all possible.

STATEMENT OF SAM H. JONES, PRESIDENT, INDIANAPOLIS URBAN LEAGUE, INC.

Mr. JONES. I am Sam H. Jones, president of the Indianapolis Urban League, and I want to thank you and the members of the Ways and Means Committee, the House of Representatives, for coming here today to permit us an opportunity to testify.

I do have written testimony, and it probably will run a little longer, and I can also commiserate with you, because I served on the Governor's Block Grant Task Force, and we had seven hearings around the State of Indiana and it is not easy to sit where you have sat all day and to hear people, even though you are interested, I know that you get tired, and I appreciate the fact that you want to expedite the schedule.

Let me say with reference to those hearings in getting about the State, we discovered that people are frightened. People are scared and people are concerned.

People do have real feelings that the current administration's economic recovery plan is going to create great difficulty for them, and I would only hope that the State officials will take seriously the report that we are going to be submitting to them with reference to the human services block grant concerns as we get our report ready and submit it to the Governor.

In summary, let me just say one or two things here and I will yield to my other distinguished colleagues.

From our vantage point in the Urban League, the Reagan economic recovery plan, if enacted in the fullest, would not affect every segment of society equally. Minorities and the poor in our view will be forced to endure the greatest sufferings and you have heard already from county welfare directors today, and you know already the directions in which they are moving, and I am terribly frightened by these kinds of concerns.

The consolidation of various funding mechanisms into block grants will eliminate in our view crucial Federal responsibility and oversight, and I emphasize crucial Federal responsibility and oversight, for the statutory and regulatory enforcement of the legal protections of most of the vulnerable and most of the vulnerable are minorities and poor, a great many of whom are not members of minority groups but members of what we call the majority group in our society.

Despite the widely held belief that the majority of the food stamps recipients are black, our data reveal that half of the beneficiaries are white, and it is estimated approximately 5 million will be dropped from the food stamp program if the program is enacted to the fullest.

Minorities comprise more than half, 51 percent of the 2.6 million persons who could lose their jobs or training opportunities as a result of the wholesale termination of CETA, and we are concerned about this.

About another 162,000 unemployed minority workers will be affected by the punitive plan to reduce jobless benefits for the long-term unemployed.

Already in neighboring cities and towns in Indiana, and also in our own community, the TVA program is being grossly affected, and we know of people in the auto industry who are disproportionately affected by the reduction in that program.

Low-income tenants in subsidized housing who recently had increases in their contributions for rent, from 15 to about 20 percent of their particular income would have to provide a much higher share of their income for housing if the administration proposal is adopted.

On Saturday, my New York Times brought me the sad news of the Senate vote of 84 to 5 approving a $208 billion appropriation for defense, and I believe that is the largest financing measure ever to pass a chamber of Congress.

This open-ended commitment, Mr. Chairman, to military hardware is simply in my view morally and economically unjustifiable.

In a country such as ours, we cannot afford, Congressman Rostenkowski, a philosophy of guns or butter, but rather we must have a philosophy of guns and butter, and we can afford both in my view.

Finally, we strongly urge the Congress to override any additional efforts on the part of the President and his administration to practice budget recisions and deferrals on already hard-pressed human service programs and projects.

When I came to Indiana some years ago, Congressman Jacobs, I learned a new word with reference to the legislature, because I had been told that human service people could not operate around the legislature.

When I came to Indiana, I found differently.

A word called "eviscerate," and you know what happens when we "eviscerate" bills in the legislature.

The decision and referral process already instituted by the President, and likely to be instituted in the future, can wreak havoc with many of our social programs and I would strongly urge you to seriously consider overriding that effort in the future.

In behalf of myself and our constituency, I truly appreciate the attention that you are giving to the critical state of our economy and its negative impact on the lives of citizens in our great State of Indiana, and in our great Nation.

Thank you.

[The prepared statement follows:]

PREPARED STATEMENT OF SAM H. JONES, PRESIDENT, INDIANAPOLIS URBAN LEAGUE, INC.

My name is Sam Jones, and I am the president of the Indianapolis Urban League. I want to thank the Committee on Ways and Means PR#14 of the U.S. House of Representatives and the Honorable Dan Rostenkowski for holding these hearings and for inviting us to testify. I am limiting my testimony to the impact of the fiscal year 1982 and proposed budget cuts on the lives and well-being of individuals, many of whom are our constituents, and the stability and adequacy of programs established by the Congress. We are making this presentation on behalf of our constituency, which is comprised of minorities and low-income people in general.

The mission of the Urban League is to enable blacks and other minorities to cultivate and exercise their full human potential on par with all other Americans. To achieve this goal the Urban League conducts programs in education, employment, housing and urban affairs, economic development, community development, law and consumer affairs, social welfare, and citizenship education. To accomplish this mission, the urban league intervenes at all points in the social and economic structure where the interests of blacks, other minorities, and the poor are at stake.

We do not believe that the full effects of the budget reductions have yet been felt. Still, it is clear that much of our constituency has been severely affected. For example, the Marion County Welfare Department has this year terminated 2,250 welfare clients. This is in a State where the gross income eligibility requirements have not been adjusted since April, 1974. However, under a new State law, stepparent incomes are included in AFDC eligibility computations. This reduced the number of eligible children by arbitrarily redefining need. New food stamp regulations have had little impact so far. Other nutrition programs seem to be holding their own to date. But this record, good as it seems is already deplorable in light of the fourteen million families in our Nation with total incomes of less than $5,000. About half of all blacks living below the poverty line receive no welfare benefits at all. Shifting the bulk of increasing Federal expenditures to defense is likely to reduce incentives among the so-called underclass.

Federal funds for public health in Marion County have been reduced by twenty-five percent. By careful management, the merging of two well women's clinics, and the use of 1980 carry-over funds, service levels have been maintained so far. It is important to know that much of the inner-city rodent control program will be cut if funds from the Department of Housing and Urban Development are not continued. We join the Department of Public Health in expressing our concern in this area because of the potential for a widespread increase in communicable diseases and more rapid neighborhood decay.

Let me move quickly on to the areas of economic development and employment. Last Friday we learned that unemployment in Indiana has risen to over ten percent again! For blacks and other minorities, that translated into about twenty-five percent plus unemployment rate using the Labor Department formula. That formula states that minorities are from two to two and a half times unemployed as the published rate. So far this year, our employment department has received 533 job orders. We were able to fill eight percent. During the same period, we had 692 job applicants seeking employment. We were able to place twelve percent. In reviewing the skills and talents of our applicants we found that over eighty-six percent have a high school diploma and twenty-five percent have a college degree. When we compare the educational level of our applicants and the skill needs of our potential employers, we find that there is no lack of education, but a glaring shortage of specific skills. On August 26, we testified before the Senate Subcommittee on Employment and Productivity. At that time, we stated that, "Labor policy must continue to include clear and enforceable affirmative action and equal employment opportunity guidelines, overseen by Federal officials. Employment programs must continue to be aimed at providing background resources, specific forms of training, counseling, placement, and other specific resources for those among the labor force who are less likely to be able to translate their aspirations into the achievements envisioned in labor policy of our Nation." We went on to say that, "At no point in our immediate future can it be contemplated that income maintenance programs can or should be abandoned. At the present time, American labor is not adequately technically trained. Large segments of the labor force are, for a variety of reasons, many beyond their control, not presently able to cope with the rapidly expanding technology that our economy encourages." We are "vitally concerned about the future of employment and training policies and their attendant programs. We are concerned that policies be fair to all and that programs be addressed to those who need them. We are concerned that income maintenance programs not be allowed to drop until trained workers have adequate technical skills to fill jobs that are available for which those skills are relevant." We are not merely advocating basic education programs, but high technology programs which meet today's business requirements.

As your committee knows from the data supplied by the Bureau of Labor Statistics, the number of layoffs in 1981 has increased dramatically, and minority and low skill workers are disproportionately affected. This translates into additional human service needs. Applying the workfare concept is no solution. There are three major problems with workfare: (1) high cost, (2) impracticality, and (3) failure as a job training vehicle.

Regarding housing, many more people are now eligible for section 8 housing assistance than a year ago. Only fifty additional section 8 units were allocated to Marion County this year. Since there is already a statewide waiting list dating from 1979 of some three thousand families in Indiana for a total of about twenty-three hundred already filled section 8 units, it is apparent that this sudden increase in the number of eligible families overloads the system. Many of these families may never be able to afford the safe, decent, and sanitary housing which has been a major stated goal of the Congress of the United States since 1937. Our friends in the private sector are pessimistic about the trickle down in housing based on supply side economics. Again, largely due to layoffs in both the private and public sectors, HUD is now holding some two hundred properties in Indianapolis, most of which were acquired by default. Subsidized housing that has not been renovated since the early 60's is now being renovated with an eye toward taking it out of the subsidized market and redirecting it toward market rate rents and condominium sales.

The human rights commission in Indianapolis has a neighborhood stabilization program which will end as of December 31, 1981, because of the budget cuts. Already hampered by limited resources, efforts to fight housing discrimination may soon come to a standstill. The growing trend of apartment owners who refuse to rent to families with children often appears to cover for racial discrimination. Many inner-city residents are being displaced, often because physical property rehabilitation efforts, originally designed to help inner-city residents, are now attracting suburbanites back downtown. Renovated space costs too much for poor people to rent; taxes are too high for low income inner-city property owners to afford; rapidly, artificially rising property values make it attractive for inner-city property owners to take their money and run. We know from past experience that the trickle-down theory only rarely works in a strong, expanding economy. In a weak and shrinking economy, we believe the trickle-down theory to be a tragic hoax.

As you look at citizens all around you, you must be reminded of the story about the couple walking out of a grocery store. Helen said to Bob, "I'm getting stronger." Bob asked, "How do you know?" Helen responded, "A year ago I could hardly carry $30 worth of groceries, and now it's easy." For those of us who still have money this is a true story. For those of us who have been layed off or bumped from no-longer-existing training programs, this story is one of those at which no one laughs.

We are very concerned about the welfare of our constituency. We know that you are concerned about them too. The impact of the budget cuts is just beginning. Already in the areas of employment, housing, education, economic development, health, and welfare, we see people in pain. A disproportionate number of the minorities and the poor are without the savings or the skills to survive this period of economic hardship. What is another recession for most of us is a continuing depression for some of us. As our leader, Vernon Jordan has said, "Everyone deserves a chance to make it . . ." It will take our help to provide the tools necessary to win victories for the minorities and the poor who would be forced to endure the sufferings if the Reagan economic plan is enacted.

Finally, let me remind you that the Reagan economic recovery plan, if enacted, would not affect every segment of this society equally—minorities and the poor would be forced to endure the greatest suffering.

The consolidation of various funding mechanisms into block grants will eliminate crucial Federal responsibility and oversight for the statutory and regulatory enforcement of the legal protections for the most vulnerable.

Despite the widely held belief that the majority of food stamp participants are black, statistics reveal that half of the beneficiaries are white. It is estimated that approximately five million will be dropped from the food stamp program.

Minorities comprise more than half (51 percent) of the 2.6 million persons who could lose their jobs or training opportunities as a result of the wholesale termination of CETA.

About 162,000 unemployed black workers would be directly affected by the punitive plan to reduce jobless benefits for the long-term unemployed.

Low-income tenants in subsidized housing, who have recently had to increase their contribution for rent from fifteen percent to twenty percent of their income, would have to provide a much higher share of their income (about 30 percent) if the Reagan proposal is adopted.

The New York Times brought the sad news to me on Saturday of the Senate vote of 84 to 5 approving a 208 billion military appropriation bill, the largest financing measure to ever pass a Chamber of Congress. This open-ended commitment to military hardware is simply morally and economically unjustifiable. In a country such as ours, we cannot affort, Congressman Rostenkowski and members of the hearing panel, a philosophy of guns or butter, but rather a philosophy of guns and butter.

We strongly urge the Congress to override any additional efforts on the part of the President to practice budget rescissions and deferrals on already hard pressed human service programs and projects.

Thank you for the opportunity of presenting this testimony. In behalf of myself, and our constituency, I appreciate the attention that you are giving to the critical state of our economy and its negative impact on the lives of the citizens of Indiana and the Nation.

Chairman ROSTENKOWSKI. Thank you, Mr. Jones.

Ms. Crean.

STATEMENT OF MARY CREAN, INDIANA LEGAL SERVICES PROGRAMS

Ms. CREAN. Mr. Chairman, members of the committee, my name is Mary Crean. It has been my privilege to work in various capacities during the past 8 years with the Legal Services Corporation-funded programs in Indiana. Today, in my remarks, I will attempt to make the following points:

That some of these undergirding budget cuts in the human service area are myths, not fact; that live, needy human beings deserving of community support are directly affected by these budget cuts; that it is dissembling to say that local government or private giving can make up the difference; and that certain procedures of the Federal Government, such as numerous policy changes fluctuating wildly in scope and uncertainty caused by delays in government action, are destructive of rational local planning and the reliable delivery of services to people.

Myths: Many legal services clients are upset at the widely repeated canard that it is social programs which have unbalanced the Federal budget and caused that inflation. That charge is false. It is more accurate to note that trouble began when the United States attempted to finance a long, costly war without raising taxes to do so.

It was at just this time that the country also recognized widespread malnutrition and poor health among approximately one-fifth of its population and began its war on poverty, in itself a legitimate strategy for a government seeking to insure the domestic tranquility and secure the common good. These fiscal problems were exacerbated beyond control by the energy crisis.

It is inaccurate, unfair, and will result in estrangement between segments of our people for the budget cutters to lay the blame for fiscal problems on the backs of the weakest portion of our society.

Clients also reject the notion that the budget cuts set forth in the reconciliation bill do not affect the "truly needy." Let's look at some of the "undeserving poor."

The Congress decided that other eligibility factors notwithstanding, no household qualified for AFDC whose income exceeded 150 percent of each State's standard of need. Although Indiana ranks 21st among the States in per capita income, its standard of need—$263.20 plus up to $100 for rent as needed for a family of four—is 32d among the States—but that is a State, not a Federal problem.

150 percent of the standard of need is $544.80 but Indiana, when determining eligibility, is comparing an applicant's income to 90

percent of the standard of need or 150 percent of $326.88 equals $490.32.

As a result, 22,010 children and their caretaker relatives were dropped from the AFDC rolls. Who are these people who were cut off?

A mother of four who is a cleaning lady, working 29 hours weekly at a department store for $97.15 weekly. Not only does she lose AFDC benefits, but also loses the medicaid which pays for her hyperactive son's Ritilin and her medication for arthritis. Her AFDC benefit was approximately $135.

A mother of one who works part time as a housekeeper in a nursing home and makes $67 per week. The gas company has sent a disconnect notice and without medicaid she cannot pay for her daughter's Ritilin and her prescription for Motrin.

A mother of three, ages 8, 7, and 6, who works as a teacher's aide in a Head Start program. The program has no health insurance. One of her daughters has had two operations on her ears and must have the tubes which were inserted replaced if they do not drain properly. Without medicaid, there is no one to pay for treatment.

Each one of these mothers is working, caring for her children, is trying to maintain a stable family unit, and is making an effort to be a productive member of society. Are they undeserving of community support?

Title XX purchased many of the services provided through local not-for-profit agencies to developmentally disabled people. Early last summer, the Indiana Department of Mental Health, through which the Federal money was funneled to these agencies, surveyed them to ask how they would pare back their programs to conform to reduced governmental assistance.

Twenty-nine percent of the agencies have program priorities which determine their retrenchment policies.

> The highest priority is (given to) those programs which produce some revenue (e.g., regular work) or (which) are supported by Indiana Rehabilitation Services. Specifically, responses indicate that most frequently mentioned service which would be cut is Adult Activity/ADL (activities of daily living) programs. The second most frequently mentioned service was Preschool and the third was Treatment Services (occupational, physical and speech therapy).

It is the moderately and profoundly retarded individuals who need the adult, ADL and treatment programs the most and young children who need preschool treatment to avoid progressive disability.

In other words, the most vulnerable among a vulnerable population are most likely to have services cut for the reason that services are less costly, money can be stretched farther and results are more productive when concentrated among those in the educable range.

These decisions make good management sense but what will happen to those for whom there is no longer any program? The Indiana Association for Retarded Citizens estimates there are between 15,000 and 17,000 retarded citizens in the State who are moderately to profoundly retarded.

Other ways agencies—54 percent—are cutting back, are to lay off staff; drop clients; modify the amount, duration, and scope of services rendered.

In fiscal year 1980 the Federal Government began to drastically cut back the amount of funds it sent States to perform medicaid and medicare certification inspections in nursing homes. The Federal Government, in effect, purchases this service, namely nursing home inspections, from the Indiana Board of Health.

Since the State had to increase the State portion of the certification costs, its staff who handle licensing and complaint inspections had to be decreased so that for nearly 1 year beginning in November 1980, no complaint inspections were made.

In March 1981, the legislature made up the board of health's deficiency in this area and the staff was supposed to reinstate the services it had dropped by August 1981. Now, more Federal cuts threaten. The medicaid program is jointly funded by the State and the Federal Government and it is reasonable to expect some shared responsibility for the certification inspections and for responsiveness to patient complaints about violations of Federal medicaid and medicare regulations.

One must wonder if repeated cuts in money available for enforcement of quality of patient care standards in certified facilities stem solely from fiscal concerns or whether special-interest groups have a desire to reduce or eliminate the enforcement power of the regulatory agencies. Who will suffer? The aged and mentally ill and developmentally disabled who reside in the nursing homes. There are 39,000 of them in Indiana, almost all in certified facilities.

REDUCTIONS IN SERVICE

Sometimes a cut in Federal money means the diminution of services, not the total elimination of people or programs as in the cases cited above.

Last year, the State of Indiana received $47 million for energy assistance. As this is written Friday, December 4, the State still does not know how much it will receive for fiscal year 1982.

As a result, few applications for energy assistance have been taken because the State has not wanted to commit itself as to benefit levels when it did not know how much money would be available. This means that the earliest an applicant can expect to receive any assistance is February or March. Surely, one should be able to expect winter help before spring. What a blizzard of disconnect notices will have been accumulated by then.

The State is estimating that it will receive $36 million for fiscal year 1982. This is an $11 million cut from last year and because of the State's high unemployment level, 10.5 percent, an increase in the program's enrollment is expected.

While last year, 120,000 families received energy assistance, this year an estimated 140,000 families are expected to be eligible. Given these two factors, less money and more people eligible, the benefits must go down. Whereas the average benefit last winter was $189, this year, it is expected to be $162 spread over the entire heating season.

Benefits will range from a high in the northern part of the State for high-risk populations of $207 to a low in the southern part of the State for nonvulnerable populations of $135. In addition to these benefits, those over 60 years of age may be eligible for up to

$125 in emergency energy assistance or $100 for those under 60 who have received a disconnect notice. This contrasts with $200 last year.

At legal services, we too are cutting back services. We adhere strictly to the principle that in a democracy, the judicial system should be available to all, but when people are being dropped from AFDC and medicaid, our anticipated 25-percent cut over fiscal year 1981's budget will be absorbed without complaint.

It does mean, however, that there are fewer lawyers to serve people just at the very time that new laws are being written which strip due process protections, and programs upon which people depended for basic necessities of life are being eliminated.

The two largest legal services programs in Indiana, covering over 80 counties, have recently halved their staffs. This meant closing 9 of 18 offices with the result that at least 1 office, Indianapolis, has had to close intake, except for emergencies, for 2 weeks to complete cases transferred from the closed offices.

But as the staff goes down, demand for services goes up. The dogs and rabbits cases—that is, insubstantial—have disappeared. Child neglect, evictions, and mortgage foreclosures are up.

In April, the Indianapolis office had 17 attorneys and paralegals to cover 6 counties. By October, layoff notices had been received and cases were being closed, not opened. Yet, records show that there were 294 more clients contacts in October than in April. The difference is that 23 fewer cases were accepted in October than in April; letters of advice were written in 68 fewer cases and 437 more people were given advice over the telephone.

In April, 135 cases were closed; in October, 294 were closed. The cases are more serious and the clients more desperate. And now in December, the Indianapolis office has 8 attorneys to handle requests from 18 counties.

INSTABILITY OF LOCAL PROGRAMS

Not knowing how much money there will be available in the current fiscal year makes planning and the assurance of continuity of services impossible.

By January or February, local providers of services for the developmentally disabled will probably run out of the money provided under title XX—and now the social services block grant—contracts awarded July 1, 1981 and expected to last through June 30 of 1982. Maybe there will be a spot of additional money. But who knows?

In its 1981 session, the Indiana General Assembly assumed that there would be a reduction in title XX moneys available from the Federal Government. It, therefore, appropriated 6 percent fewer title XX funds to the Department of Mental Health for programs for the developmentally disabled in contrast to the $24,450,000 in fiscal year 1980.

The Department, wishing to be prudent and reading the signals by that time emanating from Washington, D.C., withheld 15 percent of the appropriations and wrote contracts with local service providers on the basis of 23 percent reductions.

The State title XX office has subsequently surmised that it will ultimately sustain a reduction in funding of 4.4 percent in addition to the 6 percent anticipated in the State budget so that DMH may ultimately be able to distribute 10.6 percent of the 15 percent it initially withheld.

It is impossible to start and stop services when staff must be hired and trained to provide them. There must be a modicum of continuity. As the volunteer member of the Board of Directors of several organizations in town, I can tell you that none of us can afford now to go in debt, even temporarily, as we were sometimes wont to do in the past when expected checks were delayed, because interest rates are too high.

Of course, the cessation of programs like the CETA public-sector jobs program also affected the stability of a number of community-based organizations. I chair the advisory council of the program for independent living, an alternative to nursing home care for a number of elderly residents of the central city, mostly women and mostly minority group members.

PFIL has operated for about 8 years and used CETA workers extensively. Through 1980, we employed 13 homemakers and even in the first 3 months of 1981, received $8,213 per month to employ three drivers, 3 clerical workers, and a needs assessor.

We have currently one driver funded from other sources and have not replaced the other personnel. We have tried United Way, churches, local corporations, and foundations and there is no way to make up this money from other sources. The future is impossible for the program as it now operates and we are trying to merge it with another. There has been a reduction in the numbers of those who are served.

If our clients are forced to enter nursing homes, there will be a significant increase in cost to the State for medicaid as well as the human cost to clients.

COST SHIFTING

There is yet another way to manage during a scarcity of financial resources in addition to cutting off clients, dropping or reducing programs and that is to shift costs from one program to another.

Take, for example, the Indiana crippled children's program. In fiscal year 1981, Indiana received $2.4 million from the Federal Government to provide administration expenses—some of which does involve hands-on activities with patients—and to provide case service for youngsters with congenital heart problems.

State and local government, with family participation, pay expenses for treatment for children with crippling, but treatable, diseases. I am told that at the present, the crippled children's program is being funded at its fiscal year 1982 authorization level, $1.8 million going to Indiana.

As a result, the case service for children with congenital heart problems has been shifted from Federal to State to local funds, leaving the Federal money to cover administration.

Unfortunately, this shift, plus escalating costs, is expected to cause a $2.4 million shortfall this year in the State dollars necessary to carry out this program as it is presently constructed.

After shifting the responsibility for certain services to other entities, that is, school corporations to assume responsibility for speech therapy for handicapped children, the Crippled Children's Division still expects a $1 million shortfall.

As a result, a 30-day limit will be placed on hospital stays and hospitals are being asked to eat the cost for any additional days necessary for the care of a particular child.

Whether hospitals do that or whether they will pass this additional cost on to parents who are already paying substantial monthly cost, is yet to be seen. This extra cost may average out to be $100,000 per hospital except for Indiana University Medical Center, which treats 40 percent of the crippled children in the State. How or if it can eat that cost remains to be seen.

It is clear that, since county governments have been under a property tax control program since 1973, they have no ability to go beyond present responsibility to pay half of the first $5,000 necessary for care.

The State budget is in a precarious position and won't appropriate any more money to this program so the private sector, namely not-for-profit hospitals, are being asked to raise the money.

Hospitals already complain that they or their private-pay patients are asked to absorb some of the costs for medicare and medicaid patients because the rate reimbursements of those Government programs do not, according to the hospitals, fully reimburse legitimate care.

The county hospital here in this city is $5 million in arrears in large part because 51 percent of its patients are not covered by any third party insurer. Any cuts the Federal Government makes in its health programs means a rise in the costs to States and local units of government.

It is unrealistic to expect local government and charities to absorb so many cuts from so many programs all at one time.

Studies have shown that the food stamp program dramatically lowered malnutrition in this country and statistics from the medicaid population also indicate improvements in health among that populace. It would be an unmitigated tragedy if this country turned back progress and cuts its health programs now. Although it has become almost a cliche to say so, the strategy should be to curtail inflation in the health industry, not to cut the programs.

PRIVATE SOURCES OF FUNDING

In the last week I have been in touch with two foundations, each located in central Indiana. They are experiencing an unbelievably high number of requests. One, a corporation-owned foundation, has a long, illustrious record for giving 5 percent of its profits to charities.

Its gifts depend on corporate earnings, however, and recessions do not help. In addition, this foundation, and probably many more like it, are spending a great amount of time just now analyzing the impact of the 1981 Tax Act on its earnings.

As pointed out in an urban institute study, it is possible that because of revised definitions of profit and extensive disregards, the actual dollar value of gifts of 10 percent of corporate earnings allowed under the new Tax Act may not appreciably exceed the dollar amount under the old 5-percent ceiling.

Until corporations understand what the tax impact will be under the new act, they will not be making any increase in expenditures.

Furthermore, what most local programs need right now is money to provide basic, ongoing services. Foundations do not want to give this type of money. They have always chosen to give seed money, start-up costs for an initial period of time, and the recipients of those funds were responsible for finding replacement sources of money when the foundation grants ran out. When I asked a foundation if it would consider changing this policy, I was told it was very unlikely that any changes in foundation policies will be made within the year.

Indiana will lose $49.7 million in Federal support for health, social services, and emergency hardship programs in fiscal year 1982 , based on figures in the first budget resolution. The fallout on local agencies of this massive reduction will be severe. According to "A Study for Independent Sector and the 501(c)(3) Group," Lester M. Salamon and Alan J. Abramson, private giving will have to increase 26.9 percent to offset the budget impact.

It is unreasonable to expect an adequate increase in both taxes and private giving to make up the difference in program expenditure.

It should be noted in closing that there are no easy answers for Members of Congress sincere in their efforts to control inflation, stem unemployment and stimulate the economy. Our clients would ask that your decisions be made on the basis of fact, not myth, and with a clear understanding of the effects of those cuts on specific populations. Not all Americans are able to sustain cuts in programs equally. Establish spending priorities, or, if you will, cutting priorities.

Last to be touched should be those programs which provide basic sustenance to high-risk populations, food, basic health, clothing, and shelter. Next in importance are those services, treatment, legal, day care, which can be quantified, accountability fixed and which are directly linked to an individual's or family's ability to survive, to live humanely, to obtain employment, and, in the case of families, to sustain themselves as a unit.

Other programs, while proving valuable in the past, must, in these days of budget cutting, take a back seat to basic human needs. Above all, do not penalize the weak to benefit the powerful.

[Attachments to the prepared statement follow:]

TABLE 1

Estimated Reduction in Federal Funds to Indiana by Block Grant Area 1981-82*

	1981	1982	Reduction
	(millions)		
Health	36.3	28.6	7.7
Preventive Health	6.7	4.9	1.8
Emergency Hardship	49.9	35.7	14.2
Social Services	108.2	82.2	26.0

*Source: Don Newman, Director
State of Indiana
Washington Office
June 15, 1981

LS:gc 6/15/81

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CHART "H"

"Sources of Funding for United Way Agencies (1980)"

Type of Agency	United Ways	Government	Fees & Dues	Fund Raising	Other Sources
Aging	4%	69%	16%	7%	4%
Alcoholism	10%	61%	16%	4%	9%
Cancer	14%	36%	3%	22%	26%
Cerebral Palsy	17%	49%	8%	10%	16%
Child Welfare	12%	69%	6%	4%	9%
Children's Home Societies	8%	61%	10%	7%	14%
Community/Neighborhood Development	13%	77%	1%	4%	5%
Crippled Children and Adults	9%	34%	22%	16%	19%
Day Care Centers	13%	66%	14%	3%	5%
Drug Abuse	7%	74%	9%	4%	6%
Epilepsy	17%	45%	9%	9%	20%
Family Service-Non-Sectarian	8%	48%	18%	11%	16%
Florence Crittendon	10%	59%	13%	3%	16%
Health Planning	7%	77%	8%	1%	7%
Health, Not Elsewhere Classified	12%	47%	18%	4%	19%
Hearing and Speech	18%	36%	27%	8%	11%

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INCREASE IN PRIVATE GIVING NEEDED TO OFFSET
IMPACT OF BUDGET REDUCTIONS ON NONPROFIT
ORGANIZATIONS, FY 1982, BY FUNCTION
($ BILLIONS)

	Estimated Revenue Loss in FY 1982	Private Giving in 1981 (Estimated)*	Percent Increase in Private Giving Needed in 1982 to Maintain Existing Value of Private Support and Offset Budget Impact
SOCIAL WELFARE	$3.5	$ 6.6	+63.0%
EDUCATION	0.7	7.3	+19.6%
HEALTH	0.3	7.0	+14.3%
INTERNATIONAL	0.1	3.6**	+12.8%
ARTS	0.1	3.3	+13.0%
TOTAL	$4.7	$27.8	+26.9%

* Based on data in *Giving, U.S.A., 1980*.

* Includes items other than international.

Source: *A Study for Independent Sector and the 501(c) 3 Group*, Lester M. Salamon and Alan J. Abramson

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Type of Agency	United Ways	Government	Fees & Dues	Fund Raising	Other Sources
Home Health	7%	61%	25%	2%	6%
Information and Referral	23%	62%	1%	3%	11%
Labor	32%	55%	2%	10%	2%
Legal Aid	6%	86%	2%	3%	4%
Mental Health	8%	69%	15%	3%	6%
Planned Parenthood	8%	64%	20%	4%	4%
Planning Organizations (Social Welfare)	22%	62%	2%	6%	8%
Rehabilitation Centers	5%	33%	36%	14%	12%
Retarded Citizens	7%	65%	10%	8%	10%
Settlement House/Neighborhodd Centers	23%	54%	6%	10%	7%
Urban League Affiliates	16%	72%	2%	4%	6%
Vocational Services (Not Elsewhere Classified)	6%	49%	13%	13%	20%
Volunteer Bureaus, VACS	42%	43%	3%	4%	8%
Volunteers of America Affiliates	16%	61%	6%	8%	8%
Women's Crisis	16%	62%	2%	10%	10%

Footnote: Source: 1980 Local United Way Allocations to Agencies and Program Sources, United Way of America, pp. 73-83.

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Chairman ROSTENKOWSKI. Mr. Hartman.

STATEMENT OF GROVER L. HARTMAN, CHAIRMAN, COALITION ON HUMAN SERVICES

Mr. HARTMAN. We understand your situation, too, and appreciate the opportunity to come and testify.

I speak in two capacities. In the first place, I am the chairperson of the legislative committee of the Indiana Aging Network, and also the chairperson of the Indiana Coalition for Human Services.

This coalition has been created by some 50 volunteer agencies in Indiana as a means to meet the changed situation in serving people in need presented by the establishment of the block grant system and confronting the problems presented by reducing Federal appropriations.

I want to make a statement concerning the impact on the aged persons in Indiana, and then skip quickly over the points relating to AFDC and other recipients of aid which has been very well brought out already.

The Indiana office of social services has informed us that the social service block grant will bring to Indiana $57,833,000 compared to $72,970,000 received in the past fiscal year.

This means $15 million less for such current services as day care for the elderly, homemaker and handyman programs, transportation and nutrition. The foremost desire of older persons is to maintain independent living in their own homes. The services cut are those most directly helpful in achieving this goal.

I was interested in the testimony given by the person from USCO just a few minutes ago on the Indianapolis experience.

The net result is that many will be forced into nursing homes or other institutions where the public cost for their maintenance will be greater than if they could stay in their own homes. The estimates from the area agencies is that 10 percent fewer persons to be served in 1982 than in 1981.

I am going to use this next example not as one which came from a social agency, but as one which has brought out by one of our newspapers here in Indianapolis in a review of the situation with respect to the cuts.

Mrs. Leona Roberson earns $402 a month working as a teacher's aide at Tech High School, cares for two grandchildren. She has been receiving $128 a month for AFDC for the children.

Now this has stopped. Mrs. Roberson is one of 6,000 heads of Hoosier households containing dependent children whose aid has ceased under the new system. How would you feel if you were compelled to provide for yourself and two school-aged children on $4,824 a year? The $1,536 more which Mrs. Roberson received under the former plan helped but even then she was hard pushed to make ends meet.

And with the loss of AFDC, Mrs. Roberson loses access to medicaid for assistance with the health needs.

This is one of the most significant impacts we are seeing there in Indiana.

I give next an illustration of a nonworking mother and a working mother.

Mrs. A., a nonworking mother in Indiana with two children and no other income, has been receiving $255 per month in AFDC and $132 in food stamps. Her total monthly disposable income is $387 or 66 percent of the poverty standard. The new system would leave her AFDC grant intact, but would reduce her food stamps by $24 because her children receive free school lunches. This reduction brings her down to 62 percent of the poverty standard.

Mrs. B. represents the average working AFDC mother with two children in Indiana. Her gross earnings are $336 per month. At this wage level, she has received $199 per month in AFDC, $87 per month in food stamps, and $34 in earned income tax credit, bringing her total monthly income to $529 or 90 percent of poverty.

The new system reduced her AFDC grant to $134 because of the new disregard formula and the provision to count the EITC as income.

In addition, her food stamps would be reduced to $73, bringing her total disposable income to $450 or 76 percent of poverty. Although Mrs. B. earns $336, she has only $87 more than Mrs. A., who does not work.

Mrs. C., earning $461 per month, has a total monthly income of $571 or 97 percent of poverty. The elimination of all recipients with gross wages above 150 percent of the State need standard—$460 in Indiana—makes Mrs. C. ineligible for AFDC.

Although she is currently eligible for $139 in AFDC, she is now eliminated from both AFDC and medicaid. Mrs. C., earning $461 per month, has only $74 per month more than Mrs. A., who does not work at all, and $13 less than Mrs. B., who earns less money.

Or take the case of a woman head of household just reported to me by Family Service Association of Indianapolis, our oldest volunteer social agency working with people in need. This woman was laid off from a position in one of our auto factories. She has secured another job but at just about one-half of her former salary.

She is supporting her two teenage daughters. At her former level of income this mother was eligible for a small supplemental AFDC grant. Now, in spite of her sharply reduced earnings, she is not eligible for any AFDC help. More important still because of the termination of AFDC help, she loses access to medicaid.

This is especially a source of concern to her because her new employer has no health and hospital benefit plan for his workers. This means that all preventive medical care for this family has disappeared.

These are a few examples of the impact of budget cuts in human services which I have discovered. The impact is particularly severe on working women responsible for households whose initiative in securing jobs is now penalized.

Overall, I am convinced that as a people and as a Congress our responsibility for the general welfare makes imperative a new look at the impact of the budget cuts on people struggling to maintain a decent standard of life for themselves and their families.

Chairman Rostenkowski. Thank you, Mr. Hartman. I want to reiterate that your testimony in its entirety will be included in the record, and I want to thank you all for joining us.

[The prepared statement follows:]

STATEMENT OF GROVER L. HARTMAN, CHAIRMAN, COALITION ON HUMAN SERVICES

Mr. Chairman and members of the committee, as a citizen deeply concerned with the well being of my fellow Americans, I wish to express my gratitude for your hearings here and across the country. It is right and proper that you seek to weigh the effects of federal budget cuts in human services. I am speaking as chairperson of the legislative Committee of the Indiana Aging Network and as Chair of the Indiana Coalition for Human Services. The coalition has been created by some fifty voluntary agencies in Indiana as a means to meet the changed situation in serving people in need presented by the establishment of the block grants system and confronting the problems presented by reducing federal appropriations.

Let me first note the impact on the aged. The Indiana Office of Social Services has informed us that the Social Service Block Grant will bring to Indiana $57,833,000 compared to $72,970,000 received in the past fiscal year. This means $15,000,000 less for such current services as day care for the elderly, homemaker and handyman programs, transportation and nutrition. The foremost desire of older persons is to maintain independent living in their own homes. The services cut are those most directly helpful in achieving this goal. The net result is that many will be forced into nursing homes or other institutions where the public cost for their maintenance will be greater than if they could stay in their own homes. The estimates from the area agencies is that 10 percent fewer persons to be served in 1982 than in 1981.

Now let us look at some specific cases affecting children reflecting the incidence of cuts in the Aid for Dependent Children program. Mrs. Leona Roberson earns $402 a month working as a teacher's aide at Tech H.S. cares for two grandchildren. She has been receiving $128 a month from AFDC for the children. Now this has stopped. Mrs. Roberson is one of 6000 heads of Hosier households containing dependent children whose aid has ceased under the new system. How would you feel if you were compelled to provide for yourself and two school aged children on $4824 a year? The $1536 more which Mrs. Roberson received under the former plan helped but even then she was hard pushed to make ends meet. And with the loss of AFDC Mrs. Roberson loses access to medicaid for assistance with the health needs.

Here are three further illustrations of impact on families with dependent children:

Mrs. A., a non-working mother in Indiana with two children and no other income, has been receiving $255 per month in AFDC and $132 in food stamps. Her total monthly disposable income is $387 or 66 percent of the poverty standard. The new system would leave her AFDC grant intact, but would reduce her food stamps by $24 because her children receive free school lunches. This reduction brings her down to 62 percent of the poverty standard.

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Mrs. C., earning $461 per month, has a total monthly income of $571 or 97 percent of poverty. The elimination of all recipients with gross wages above 150 percent of the state need standard ($460 in Indiana) makes Mrs. C ineligible for AFDC. Although she is currently eligible for $139 in AFDC, she is now eliminated from both AFDC and Medicaid. Mrs. C., earning $461 per month, has only $74 per month more than Mrs. A who does not work at all and $13 less than Mrs. B. who earns less money.

Or take the case of a woman head of household just reported to me by Family Service Association of Indianapolis, our oldest volunteer social agency working with people in need. This woman was laid off from a position in one of our auto factories. She has secured another job but at just about one half of her former salary. She is supporting her two teen-age daughters. At her former level of income this mother was eligible for a small supplemental AFDC grant. Now, in spite of her sharply reduced earnings, she is not eligible for any AFDC help. More important still because of the termination of AFDC help she loses access to medicaid. This is especially a source of concern to her because her new employer has no health and hospital benefit plan for his workers. This means that all preventive medical care for this family has disappeared.

These are a few examples of the impact of budget cuts in human services which I have discovered. The impact is particularly severe on working women responsible for households whose initiative in securing jobs is now penalized. Overall, I am convinced that as a people and as a Congress our responsibility for the general welfare makes imperative a new look at the impact of the budget cuts on people struggling to maintain a decent standard of life for themselves and their families.

Chairman ROSTENKOWSKI. We appreciate your concern and the opportunity that we have had to have an exchange with you.

This committee will stand adjourned.

[Whereupon, at 5 p.m., the committee was adjourned.]

[The following were submitted for the record:]

STATEMENT OF HON. JOHN P. HILER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Because I am not a member of the Ways and Means Committee, it is a particular pleasure for me to be here today. I appreciate the courtesy the chairman has shown by allowing me to participate, for I believe that to the degree the field hearings provide the opportunity for all of the facts to be known, the process is educational and helpful to our task in Washington.

I look forward to hearing stimulating testimony today that will help us assess the impact of the President's program for economic recovery. Among the stories told this afternoon will be one of a State that has adapted well to the system of block grants. This system seeks to decentralize responsibility, and thereby reduce unnecessary administrative costs, and increase the responsiveness of the programs to community and individual needs. The State of Indiana has developed a block grant system that serves the truly needy, and it is a program which demonstrates that block grants are a viable, workable method of providing assistance. I congratulate the State for their efforts.

Before I move into the main body of my statement, let me digress for a few comments on the viability of another program—volunterism. The President of the United Way of LaPorte, Ind., my home town, recently offered a revealing story on this subject, and I am pleased to share it with you.

During the 1970's, the LaPorte United Way faced a crisis—volunteers were hard to recruit and pledges for donations were difficult to muster. The reason was quite simple: Federal grants to the agencies the United Way was helping to support. While volunteers were offering their time and hard work to raise two or three hundred thousand dollars, the Federal Government was sending between two and three million dollars to LaPorte County, Ind. "Why," people would ask, "should I give my time, effort and money when the Federal Government is going to send millions of dollars?"

The Federal Government plans to reduce its grants to LaPorte County by 20 percent in 1982, putting pressure on the United Way to raise more funds. Yet, because of unemployment in the area, pledges for donations in 1981 were expected to be down by $30,000. Rather than reaching the 1980 pledge level of $340,000, a lower total of $310,000 was expected.

But an interesting phenomenon occurred. Knowing of the reduction in Federal funds, the people of LaPorte City regained a sense of volunteerism and produced pledges not of $310,000, but $350,000—$10,000 more than in 1980, despite unemployment.

There are other reports equally as warming and revealing, but I think the point has been made: Americans have not lost their traditional sense of generosity, their willingness to voluntarily help those in need, it was just usurped by the Federal Government.

The focus of my statement, however, is the impact of the Reagan program on the economy of the United States. My purpose is twofold. First, I think it is important that we establish a perspective from which to review the testimony we are about to hear. To do this, it is important that we review the economic trends that characterized the policies of President Carter and the new trends that have their beginnings in the Reagan program for economic recovery. It is, secondly, only through a healthy economy that the people, all of the people, can enjoy the opportunity for a better quality of life. An economy besieged by rampant inflation, devastating interest rates, low productivity and an ailing gross national product cannot grow, cannot produce, cannot provide jobs and cannot offer opportunity. Few would deny that it is crucial to the well-being of all citizens that our economy is brought under control.

Many will maintain, however, that the new economic programs we are pursuing are not necessary, that the policies of the past can correct the economy. Yet, the facts demonstrate that this is not the case.

When President Carter assumed office in 1976, the rate of inflation was 4.8 percent. Every year he was in office, the rate increased. When he left office, the rate was 12.4 percent—the rate almost tripled in four short years. Similarly, when the Carter administration came to Washington, the average prime rate was 6.84 percent, and when that administration left, it was 21.5 percent—again, triple the rate.

What happened to productivity and the gross national product during these four years? While the rates of inflation and interest were increasing, productivity and the GNP were decreasing. In 1976, productivity, as measured by output per hour, had climbed to 3.3 percent. By 1977, productivity growth had slowed to 2.1 percent. But in 1978, 1979 and 1980, productivity declined dramatically, showing "negative productivity" all three years. In 1980, when President Carter left office, productivity was −0.2 percent. The gross national product followed a similar downward trend. In 1976, the real GNP had climbed to 5.4 percent, and it repeated the upward trend in 1977. Then, it turned down, falling each year until, in 1980, the country experienced a "negative GNP." The real gross national product in 1980 was −0.2 percent.

In a healthy economy, productivity and GNP are supposed to show an upward trend, while interest rates and the rate of inflation are supposed to move down or remain at a low and steady point. The previous policies resulted in the opposite.

What, then, are the economic indicators showing now that President Reagan's program for economic recovery is partially in place? Simply put, GNP and productivity are doing what they are supposed to do—increasing, and inflation and interest rates are doing what they are supposed to do—decreasing.

The prime rate today is 15½ percent, 6 percentage points lower than when President Carter left office. The inflation rate is expected to be 9.5 percent—a decrease of almost 3 percent. GNP has grown to 1.9 percent and productivity is expected to regain an upward trend by reaching positive 1.4 percent. These figures indicate that where the old policies failed, the President's new program is succeeding.

What do these new directions mean for the people of our country? If we continue to follow the course the President has recommended, it means that those on fixed incomes can be secure in the knowledge that inflation will not erode more and more of their limited incomes. It will allow individuals to plan, with confidence, for their futures. It will allow small businesses that provide jobs, goods and services for neighborhoods and communities, to have access to credit, to grow and to prosper. It will help housing costs to decline, thus providing homeowners and renters the opportunity to live more comfortably. But most of all, it means jobs. Jobs for those who have lost them and jobs for those who are eager to work but for whom, in the last four years, the door has been closed.

The President's program has created the new and positive economic trends we are witnessing today, but we should not expect miracles. It will take time. But while the economic trends during the Carter administration were higher inflation, higher interest rates, less productivity and a smaller GNP, the new direction the Reagan administration has chosen has led to lower inflation and interest rates and greater productivity and GNP.

What we need above all is a steady hand—a willingness to stand by the President's program that has done so much in so short a time to create the right atmosphere for a better life for the people of the United States. It is a program that seeks to return to the individual citizen the incentive to work and save and invest—the kinds of qualities that have built our country into the economic giant that it is. It is a program that protects the poor, provides opportunity to those who have never had it and allows those with middle incomes to keep more of what they worked so hard to obtain. It is a program for all Americans.

PREPARED STATEMENT OF JOHN E. HEINY, DIRECTOR, DEPARTMENT OF PUBLIC WELFARE OF ALLEN COUNTY, FORT WAYNE, IND.

I appreciate the opportunity to address this body concerning what has happened in one county in the State of Indiana following the implementation of the recent budget cuts passed by Congress and signed into law by the President in August, 1981.

These changes were implemented in Allen County, and I am sure, in the entire State effective October 1, 1981 because of a great deal of hard work and dedication of the welfare staff which they should be commended for.

In the case of the Aid to Families with Dependent Children Program, in Allen County, Fort Wayne, Indiana, we removed from the welfare roles 508 cases representing a cash savings to the county by actual case count of $50,393. This figure when extended out for a full year represents a savings of $604,716. When compared to the total AFDC budget for 1981 of 48,946,000 this savings is just a little over 7 percent for the year while the number of cases discontinued equal 15 percent of the caseload. Another interesting fact that should be pointed out at this time is these cases that were removed had an average monthly payment per case of $99.00 per month. However, those who remained on the program had an average monthly payment of $252.00 per month. I sight these figures only to point out the fact that the cases that were removed had other income and were not truly destitute cases.

It needs to be pointed out to the committee at this time that those people who were removed from the Aid to Families with Dependent Children Program, in many cases will be eligible to receive increased housing subsidies because they are no longer getting that check from the county, and many of these people participating in the Food Stamp Program will also receive additional food stamps, because they no longer are receiving that AFDC check. They will also be entitled to receive any support that has been going to the State Welfare Department, Parent Locator Service. Those funds will now be paid directly to them which will serve to increase their income.

Turning now to the Food Stamp Program, while implementing the changes that became effective on October 1, 1981, we found in our county that we removed 107 food stamp cases which represented a $3,196 monthly savings. The other interesting thing about the people who were removed from the Food Stamp Program, they had an average monthly allotment of $29.87 while those who remained on the program had an average monthly allotment per family of $113.33. Further, as a result of Implementing the changes that became mandatory October 1, 1981, we had 1,093 cases that were reduced, which amounted to a net savings for the month of $2,992 or another way to look at it, an average reduction per case of $2.74. The total monetary savings in the month of October for food stamps amounted to $6,188 compared to a total issuance for the month of October of $855,766. This is considerably under a 1 percent savings. If those savings that were achieved for the month of October were extended out for a 12 month period, it would equal $74,256 compared to an anticipated issuance for 1981 of $10,500,000.00 or, once again, the percentage savings is considerably less than 1 percent.

In all of the cases that have been either reduced or discontinued from the Aid to Families with Dependent Children or the Food Stamp cases, it should be pointed out to you that these are cases in every instance which had some form of income, either earned or unearned income, or had another person's income counted that previously could not be counted.

Some of the AFDC cases were discontinued because for the first time we were allowed to count a step parent income toward the needs of the family.

I want also to point out because of implementing these changes we didn't just remove and decrease cases. There were 86 cases that received increases because their employment expenses were less than the $75.00 employment expense allowance in effect now.

Of the 508 cases that were discontinued 12 requested State appeals and of those 12 only two showed up for their hearings and we still have two pending.

When we began implementing these changes in AFDC, we had 663 or about 20 percent of the caseload employed, however, in only 336 of those cases their income exceeded the 150 percent of the standard of need and they were discontinued.

ATTACHMENT 1

THE FOLLOWING IS A BREAKDOWN OF 508 CASES THAT WERE DISCONTINUED EFFECTIVE OCTOBER 1, 1981, AS A RESULT OF IMPLEMENTATION OF THE NEW WELFARE CHANGES.

1. STEP PARENT INCOME DEEMED AVAILABLE TO AFDC HOUSEHOLDS -- 172

   CASES VOLUNTARILY WITHDRAWN -- 39

2. CASES WHOSE EARNINGS EXCEEDED 150% OF THE STANDARD OF NEED -- 336

TOTAL -- 508

ATTACHMENT 11

In our checking of 336 cases discontinued because income exceeds 150% of the standard of need we have found the following:

5	Recipients had a second job
44	Another person in the household was also employed
50	Support payments were being sent to the State IVD Program from absent parent
7	Recipient received support payments for child(ren) not in ADC grant
6	Social Security Benefits received for persons in ADC grant
4	Social Security Benefits received for child(ren) not in ADC grant
2	Supplemental Security Income received by someone in household and is totally disregarded in determining available income
52	Subsidized Housing
142	Receiving Food Stamps
33	Of those cases would have remained eligible if total needs, instead of ratable reduction, had been used

COMMENTS CONCERNING WELFARE CHANGES

Since my remarks concerned primarily statistics it is only proper that I address some of the issues raised in much of the rhetoric going on in the country concerning cutting poor people from the welfare roles. I have previously stated that people who have been removed from the roles in Allen County are people who have income which exceeds the levels established by the Congress and the Administration. It is my thinking that of the many programs that are funded throughout the country, there should be a program to assist people to establish priorities by planning and living within their budgets.

The AFDC Program was established primarily to meet basic needs of those people found to be eligible for the program. In keeping with that thought I would like to say I know of no public official, whether elected or appointed, who is not in favor of helping in some useful way those less fortunate then ourselves. For example, Public Law 90–248 which was intended to encourage welfare recipients to get a job and to earn additional income to assist them to leave the welfare roles and become self-supporting.

The Philosophy of this law is commendable but the results have been devastating. It is the one thing that has really destroyed the credibility of the AFDC Program. Because of the tremendous income disregards that were intended as an encouragement to find employment continued indefinitely those people who were expected to voluntarily leave the welfare roles or because of income would be ineligible did not leave the welfare roles.

Many of these recipients have been working along side of a non-recipient, doing the same kind of work, but end up working at different income levels because of the AFDC check. The person trying to meet their needs without some form of public assistance comes out second best. Because of the many categorical assistance programs and none of them coming under the jurisdiction of the various welfare departments we find that many of the people who have been removed particularly from the AFDC roles will still be eligible for one or many of these other programs, such as; Food Stamps, Housing Subsidies, WIC, and Energy Assistance to mention just a few.

It is my considered opinion that these changes have been in effect a little over sixty days and I believe we need to give these changes an opportunity to work and I think it is much too soon to attempt to evaluate the effectiveness of these changes and what the results will be. I believe since the dicision has been made to implement these changes that we should get on with the work at hand and not keep the people trying to administer these programs in a state of frustration wondering what changes may be coming next.

CENTRAL INDIANA COUNCIL ON AGING INC.,
Indianapolis, Ind., December 17, 1981.

(Attention of John J. Salmon, chief counsel)

COMMITTEE ON WAYS AND MEANS,
U.S. House of Representatives,
Longworth House Office Building, Washington, D.C.

DEAR MR. SALMON: In response to Press Release No. 14, concerning The Impact of the Administration's Budget Cuts, I submit the following on behalf of Older Hoosiers in Central Indiana:

1. Lives and Well-being of Individuals: The budget cuts will have the most effect on Older Hoosiers in Central Indiana insofar as access to needed health and supportive services, as well as food and financial assistance, are concerned. In the area served by this Area Agency on Aging, eight counties in Central Indiana, there are approximately 150,000 people 60-years old or older. Of these, approximately 17.4% are below the established poverty level. The majority of these persons are women, living alone. The implications of the budget cuts are serious in the above areas, due to the fact that many of these persons have already been in a precarious existence, even with the supports that have been built in recent years.

2. Many of the programs, including those funded through the Older Americans Act, on behalf of the elderly, seem to be more stable than most other helping programs. However, none of us in the field has pretended that the support provided by the various programs has been adequate. My fear is that the cutting of the more generic programs will create a greater demand on the entitlement programs for the elderly, which are already being strained to meet the needs of an inadequate number of those who are truly in need. There is, of course, the continued problem of programs funded at the federal level without sufficient coordinative regulations,

which tend to prohibit the sound coordination of those programs at the local level. This problem complicates the capacity to deliver services.

3. It is difficult to make a judgment on the capacity of state and local governments to fiscally and administratively manage programs under the "new federalism". However, it is my opinion that state and local governments will be unable to manage the new programs without increased costs, if those programs are to be operated efficiently at the respective levels of government. For those of us in the field, there is the continued fear that state and local governments will see the flexibility under the "new federalism" and will direct a disproportionate amount of the funding available into non-service areas. That is, of course, a problem at our level; however, future federal legislation should keep this potential problem in mind.

It is very difficult at this point to comment on the issues as raised in the Press Release of November 20, because many of the changes have happened so quickly that we have been unable so see all of the results. As the implementation becomes more evident in the next few months, the impact will become much clearer.

Some people think that services provided through the Older Americans Act are in a privileged position, due to the fact that we have suffered very little impact from the budget cuts. However, in the instance of services provided through our Agency, there has been a great deal of local match, to the amount of about 40% in 1981, including sources such as Community Development Revenue Sharing money. This means that many of our programs have based their success upon their capacity to generate a coordination of various funding sources, and should those other funding sources be cut, then our capacity to deliver services to Older Hoosiers will be diminished.

I hope that my comments will be of some significance as the Committee on Ways and Means proceeds in its deliberations.

Sincerely,

DUANE ETIENNE, *Executive Director.*

THE CHURCH FEDERATION OF GREATER INDIANAPOLIS,
Indianapolis, Ind., December 11, 1981.

Mr. JOHN SALMON,
Chief Counsel, House Ways and Means Committee,
Longworth House Office Building, Washington, D.C.

DEAR MR. SALMON: Attached is information which we feel will be helpful to you and the Ways and Means Committee as the study of the impact of reduced Federal funds affects the people in Indianapolis.

We appreciate the Committee's willingness to visit and hear from people in our city this week.

Rev. Roger Heimer who is chairman of our Urban Affairs Unit (who has along with me visited with Congressman Jacobs regarding these matter) prepared the materials and information. Mr. Heimer at one time worked in an interim position with Project Heat (SAFE) in Indianapolis.

Sincerely,

PAUL E. MCCLURE, *Executive Director.*

[Attachment]

Sensitive Indiana residents must be concerned about employment since this state currently ranks second or third in the nation in the percentage of its citizens who are unemployed.

During recent periods of recession and unemployment the "counter cyclical" Title VI or Public Service Employment of the Comprehensive Employment and Training provided jobs for temporarily unemployed Hoosiers, and a high level of service for special needs of elderly, low-income and other disadvantaged clients.

Now when recession causes us to need the service most, and when Indiana is hardest-hit by unemployment, the Title VI program is no longer available.

The Church Federation of Greater Indiananpolis through its units and specialized programs has administered programs with significant numbers of CETA Staff. In our senior citizens program we have had two persons who were drivers to pick up elderly blind and disabled who needed transportation. Without these drivers who were paid by CETA these transportation programs have been curtailed. We also have had persons who were trainees as secretaries and receptionists in our senior citizens programs. These also have been cut. The cutting of positions have seriously hampered our efforts to aid senior citizens who are handicapped.

Our Urban Affairs Unit has maintained liaison with employment training programs in the community. Thus we have discovered that the primary agents in the critical areas of minority on youth employment training have not only lost their Title VIII funds. They have also experienced cuts in funds allocated through other Titles, during this period of increased unemployment. Although state and local government policy is to augment private sector job training with supportive training through the states vocational education system, no additional funding has been proposed for the Indiana vocational and Technical College Ivy Tech System. Finally the private industry employers who express some new sensitivity to this immense problem, will state that they have the will but not the money to implement employment training programs. In summary local needs and local interest are greater than at any time in recent history but funds from all sources are static or reduced.

The Church Federation was co-administrator of the small fund under which low-income emergency assistance began in Indianapolis in the mid 70's. Therefore we have watched the need and the program expand from the $23,000 level at that time into a multi-million dollar program in Marion County alone. The SAFE program began annual in-take this week in Indiana, without knowing its funding level. We regret that the crude oil windfall profits tax originally designated to this program has been diverted or withheld.

Indiana residents have experienced annual utility rate increase in the ½ billion dollar range this year, while Congress and the administration have steadily reduced the proposed appropriation for low-income energy assistance.

It is reliably estimate that current proposals will deliver 12 percent less assistance to Indiana this year even though the eligible population (through increased unemployment, aging, and retraction of other benefits) will grow from 120,000 to 164,000. The majority party leadership in the Indiana legislature has indicated that it will not "open up its biennial budget in 1982 for this need or for any other emergency.

Along with the reduction in crisis assistance for fuel bills hundreds of low-income clients of each Community Action Agency in Indiana are waiting for promised weatherization. Since this C.S.A. program was shut down last spring, millions of dollars worth of material and equipment have been deteriorating with water and freezing damage. This arbitrary action was not cost effective in either short-term or long-term effects.

In Summary, we see individual persons unemployed and short of fuel money and lacking essential social services. Neither the federal budget nor any source within the State of Indiana covers the needs we have presented to you.

STATEMENT OF THE INDIANA CATHOLIC CONFERENCE

The Indiana Catholic Conference thanks the members of the U.S. House Ways and Means Committee for this opportunity to present information regarding the effect of current economic and budgetary policies on people in need, specifically needy Hoosiers. The Conference is a statewide organization which represents the Roman Catholic bishops of the five Indiana dioceses.

The problem as we see it is two fold. First, and possibly more important, are the philosophical attitudes underlying the economic policies. It has been well established and accepted by society that government has an important and direct role in enhancing the quality of life of our citizens. Not only is that a belief of the Roman Catholic Church but also of government itself. From the federal housing statutes to the food stamp act, these programs were established to provide basic necessities of life. United Way believes this too. Mr. MacDonald, Executive Vice President of United Way of Central Indiana publicly stated that "critical services, such as food, clothing and shelter are the responsibility of the public sector." Government has the responsibility to provide for persons in need. It is their right as persons who deserve respect and dignity as ones created in God's image; it should not be dependent upon the willingness or ability of voluntary efforts to provide these needs.

The second problem is one of sheer dollars. In the short time available to us to prepare this statement we nevertheless have been able to surface the following data. Indiana will lose at least $138 million in federal funds. This does not include the additional sums leveraged by the federal dollar. Further, a second round of even a 4 percent cut will result in Indiana's losing another $60–160 million.

EFFECT ON PEOPLE

Lieutenant Governor Mutz stated the program administrators would not be hurt. But people who needed the services provided by the programs already have been hurt. Our Catholic Charities and Catholic Social Services Directors tell this story.

In Gary, a city with the 8th highest unemployment rate in the nation, Catholic programs received $21,000 from Title XX, $22,000 from ACTION for an RSVP program, and almost 60 percent of its budget from United Way. The funding levels have remained constant for the last three years. Even without the budget cuts, then, these programs were losing to inflation and have had to decrease staff. Yet the number of persons requesting aid increased by 8–10 percent each year.

Their largest unmet need in for fuel assistance. Yet the low income energy block grant offers a pitifully small amount of assistance. The limited amount of funds are totally inadequate for an energy problem which continues to escalate and will become worse with decontrol. The Gary program was able to provide an additional $12,000, which was almost expended by the first 20 persons seeking aid. Their unpaid bills ranged from $90–$2,100.

Elsewhere in Gary, a Lake County Department of Public Welfare caseworker is encouraging most recipients to appeal. She says the workers do not understand the many program changes and are exacerbating households already dire situations by incorrectly terminating or reducing benefits.

In South Bend, unemployment is 19.5 percent for Hispanics and higher for blacks. Bendix, the largest industry, intends to lay off persons indefinitely in its first step toward closing and moving south.

Catholic Social Services has lost its CETA funds, and United Way funds, which comprise almost 50 percent of the budget, end in December. The 1982 level is unknown. Even so, the program has experienced a 70 percent increase in requests for emergency food aid. The diocese cannot make up any deficit which Catholic Social Services will experience.

Other South Bend programs are not faring as well. Both the Hansel, and Family and Children Centers are about to fold. United Way is their major source of funds. These centers provide counseling and housing for juveniles, as well as emergency financial assistance with utility, rent and food bills. The level of applications has increased greatly and cannot be handled.

Another program, Renew, Inc., helps persons buy and rehabilitate homes, and obtain loans. The program is funded 70 percent from the profits it makes on the resale of rehabilitated homes. The profits also finance a revolving loan fund for the low income buyers. Although the concept should be one in favor with the current Administration, the CDBG cuts have forced reductions in the number of homes served, and the program may fold by 1984.

One final program addressed the needs of Hispanics. The CETA cuts have eliminated jobs for Hispanics attending school; and have forced the staff to decrease from 5 persons to 1 counselor. As a result, 140 persons per day are no longer served.

In Fort Wayne, the funding for Catholic Charities already has been reduced by 43 percent, because of the cutbacks in the refugee program. Catholic Charities statewide will lose $180,000 in federal funds.

The Catholic Social Services program is experiencing the ripple effect. Medical clinics and other social service programs to which clients were referred are themselves cutting back because their cuts do not permit them to meet the needs of persons they serve directly. Fewer persons who need services, including medical services, are receiving them.

At Catholic Social Services itself, 6 staff have been lost already to budget cuts. That translates to a minimum of 120 households per week not receiving aid. In 2 days, the agency had 7 families who were either living in the street without shelter or needed fuel assistance. The agency had no money or staff to help. The Director feels helpless, as this is the first time in the agency's history that they have had to turn people away without providing assistance.

In Indianapolis, Catholic Charities receives $90,000 in Title XX counseling funds which have not increased in past years. Inflation decreased the value of the funds even prior to the cuts. The agency has only 4½ full time staff. United Way expects to decrease its allocation.

As a result, the crisis intervention program operates only half time, in spite of the fact that this is the precise program which needs to operate fully. Indianapolis Catholic Social Services also supplemented its funds with an $8000 grant from the National Conference of Catholic Charities for heat assistance. It was inadequate as each year the need for fuel assistance increases

Elsewhere in Indianapolis, the adult education program was cut 40 percent. Staff were reduced from 45 to 21. Christmas collections are low and requests are running 66 percent higher than last year. The personal care assessment program which meets the needs of the elderly has been eliminated, along with transportation services.

In Morgan County, Title XX funded a program which picked up and delivered food stamps to elderly and other homebound households. The program was eliminated because of the cuts and the county Department of Public Welfare will not issue stamps by mail, although there is clear authority for doing so. In addition to a cost savings ($12,000 (Title XX) versus approximately $300 for postage), mail issuance would help give food to persons needing it.

In Evansville, the same picture presents itself. Catholic Charities has experienced a marked increase in requests for rent and utilities. Other local agencies which usually help are themselves without funds. St. Vincent DePaul which provides emergency assistance and household goods is experiencing difficulty: Persons are selling items at home garage sales rather than donating to the program. A program for battered children will fold if Title XX funds, which comprise almost 50 percent of the St. Vincent Day Care Center, are cut.

WHAT ARE THE SOLUTIONS?

Other agencies: As previously mentioned, other local agencies which usually help cannot because they too are experiencing cuts. The result is a grave reduction in services or the termination of the program. Indiana's poor relief program is inadequately funded and administered and cannot provide assistance. In Indianapolis, a bond must be offered to finance that office.

The trustee in South Bend will be out of funds as of December 31, 1981.

United Way and corporations: The total 1980 collection for the state of Indiana was a mere $52 million, $14 million of which is slated for Indianapolis, and $8 million for Lake County. Although United Way of Central Indiana reached its goal, it did so only by extending the drive 3 weeks and by including 1500 individuals and businesses who gave last year and hopefully will give again this year. United Way lost $400,000 due to layoffs and unemployment. Mr. MacDonald of United Way stated publicly that "the United Way cannot begin to replace the federal funds that are lost."

Additional factors preclude reliance on United Way funding. First, United Way can fund only 66 percent of the requests it currently receives. Second, although businesses are targeted for giving, they seem more willing to support non-human services projects. Figures released by Thomas Moses, Chairman of the Indianapolis Chamber of Commerce, show that businesses contributed $218 million to downtown projects such as bricking of streets. Compare this amount to the $14 million raised by United Way locally; or to the $52 million raised statewide. In 1979, United Way nationally raised $394 million. This is only 50 percent more than was raised locally for the downtown Indianapolis building projects. Finally, United Ways have to decrease funding of existing programs because collections have not kept pace with inflation.

The Committee should review the study conducted by the Urban Institute for Independent Sector, an association of corporations and other funding agencies. The report, released in May, 1981, indicates that in 1982 alone, based on national data in the annual "Giving U.S.A." report, a 63 percent increase in private giving is required to offset budget cuts and inflation for social welfare programs. Salamon and Abramson, "The Federal Government and the Nonprofit Sector: Implications of the Reagan Budget Proposals," May 1981. This is the first study of its kind and should prove valuable to members of Congress.

See also, Clotfelter and Salamon, "The Federal Government and the Nonprofit Sector: The Impact of the 1981 Tax Act on Individual Charitable Giving." Urban Institute, August, 1981.

Foundations: Mr. MacDonald of United Way of Central Indiana publicly related comments local foundations have made to him. Funders say that the talk is of "new, untapped sources of foundation money." Yet, they also say that foundations have always put money into programs. Does this suggest there are few untapped funds available?

There are also philosophical restrictions which need to be overcome if foundations are to become a stable funding source for routine programs. That is, foundations generally do not fund programs over any length of time, and prefer to fund new and innovative projects. It is unlikely that foundations would provide operating expenses for ongoing programs; or would fund many programs of the same type because then by sheer numbers the projects become routine, not special.

If the foundations implemented new criteria, then the possibility of funding increases and the focus shifts to the amount of dollars available. In 1969, Indiana foundations provided $9 million (whether it all stayed in Indiana is not easily determined.) Funding went for many non-social service programs, especially educational scholarships. The new Indiana Foundation Directory, which would provide current information, will not be available for another several weeks.

The Indiana Campaign for Human Development, funded by Catholics through an annual collection, has restraints similar to foundations regarding funding of projects. Even with a change in criteria, CHD in Indiana provided only $45,000 in 1980.

A review of these potential funding sources indicates that at best they could replace less than 50 percent of the federal dollars lost as a result of the first round of cuts. To do so, however, they would need to discontinue programs currently funded by these same dollars. The data indicates that these sources do not have the capacity to both fund current programs, and replace funds lost as a result of the federal cutbacks.

CONCLUSION

The harmful effect of the cuts will not be known fully until the summer. Since Indiana's fiscal year runs from July 1–June 30, many programs funded by Title XX have funds through June. The situation is uncertain thereafter. Governor Orr continues to state he will not increase revenues to offset the federal reductions. As of now, there is also a question as to whether the state match of $19 million for Title XX will be available to continue funding social services programs. The data nationally as well as in Indiana supports the proposition that the private sector cannot provide the necessities that make it possible for the poor, unemployed, aged, ill and disabled to live with some degree of comfort and dignity. It is reasonable to expect that the private sector can even make a dent in alleviating the conditions of so many millions? Both the Indiana Catholic Conference and its national organization, the U.S. Catholic Conference, firmly believe that government must not abdicate its essential role in meeting human needs.

INDIANA INTERRELIGIOUS COMMISSION ON HUMAN EQUALITY,
Indianapolis, Ind., December 7, 1981.

To: Ways and Means Committee, Indianapolis hearing site.
From: Jon Walters.
Re: hearing on implications of the budget.

I am attaching to this testimony one page from the book for Whites Only (Second Edition) by Robert W. Terry. I want to call attention to his abbreviated analysis of racism, which, for my purposes, will suffice. I want to call special attention to his definition of racism, which is italicized.

The current budget appears to many people to be a form of unintentional racism. No one has articulated, at least to my knowledge, that overt racism is the primary motivation for the current budget implication. I want to suggest that, among the lines of the argument of Terry, that, indeed, the budget process is racism, in effect.

"It is easier to find a gun than it is to find a job," was a comment made yesterday in Washington at the memorial service for John Lennon. This is probably a true statement. The commentary of the statement on the contemporary life of the "marginal" people in American society indicates the feelings of frustration which, in the past, have produced the memorable events of riots and race wars.

The current budget may not be racially motivated nor may it be inspired by the "class" competition in America. The net effect is, however, as if it is, as it is perceived by those persons most affected at the "grass roots" level. Thank you.

FOR WHITES ONLY

(BY ROBERT W. TERRY)

Whites coming to terms with a new white identity, being committed to personal and societal change, and risking actual change efforts must be coupled with an analysis of societal issues of power, culture, institutions, and resource. Not only must individuals change, society itself must be restructured. Too many whites want interpersonal solutions apart from societal changes. This desire is especially preeminent in groups working on improving human relations. But in fact both improved interpersonal relations and societal restructure are essential. The communication model tended to reinforce interpersonal solutions, even though that was not its intent nor is it a profound understanding of communication. Now I am struggling to find ways for whites to become increasingly active—self-aware, committed, risking—and build an active society that supports such new activity on the part of individuals and groups.

The definition I now use for racism flows from this shift in analysis:

"Racism exists when one race/color group intentionally or unintentionally refuses to share power, distributes resources inequitably, maintains unresponsive and inflexible institutional policies, procedures, and practices, and imposes ethnocentric culture on any other race/color group for its supposed benefit, and justifies its actions by blaming the other race/color group."

To be active a society requires equitable distribution of resources (equitable meaning distributed according to what is needed for each group to become active participants in society), shared power (not separate power), flexible and responsive policies, procedures, and practices, and a pluralistic culture (one that moves beyond superficial differences toward a serious wrestling with deeper values). Such a society will move in directions that generate the support and self-interest of all its citizens.

Such a society, of course, requires authentic communication among individuals and groups. It also requires a release and direction of active energy that is so structured that the whole society moves forward. How America directs itself, rather than becomes directed by ruling elites, internal and external economic forces, or cultural lag is the test of the next generation. It is the struggle in America to move from a white club to a just society.

Another shift following from the above comments has to do with what was during the 1960s the accepted distinction between individual and institutional racism. In For Whites Only I tried to include cultural racism as a third type of racism. However, as I continued to struggle with these distinctions, I have concluded that the appropriate fundamenal categories are societal and individual racism. Societal racism includes the cultural, power, resource, and institutional dimensions implicit in any social context. "Societal" is a more comprehensive term than "institutional," which tends to focus too narrowly on institutional practices and policies. Given this new distinction, individual racism would be any individual action that perpetuates societal racism. Therefore, passive racism becomes a dominant form of racism in America. To do nothing is to perpetuate societal racism.

Although the book displayed the beginnings of a struggle to define the self-interest of whites in combating racism—especially the analysis of how liberals and conservatives contradict themselves because of this racist consciousness—this line of inquiry was not sufficiently developed. The more I have worked with whites on racism the more I realize the need to articulate clear self-interest arguments for whites combating racism. Whites need to understand more sharply how racism destroys them as well as others in the society.

INDIANA STATE EMPLOYEES ASSOCIATION,
Indianapolis, Ind., December 4, 1981.

Re The impact of the Ways and Means administration's budget cuts.

JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means,
Longworth House Office Building, Washington, D.C.

DEAR MR. SALMON: ISEA, on behalf of Indiana's 30,000 state employees, respectfully requests the privilege of presenting these written comments for the record and to personally testify on the above referenced subject during the field hearings in Indianapolis, Indiana on December 7th 1981.

More specifically, our testimony relates to the capacity of state government to fiscally and administratively manage the full range of programs that have now been thrust upon it.

While we will make no argument, pro or con, regarding the wisdom of paring the federal budget or of turning federal responsibilities over to the state governments, we have observed that the rapid implementation of these policies have made it difficult for state government to "take up the slack" in an organized, productive, and efficient manner.

The reductions in federal aid to states has caused Indiana's state government to reduce drastically the number of state employees in many programs.

While an effort has been made to eliminate positions by attrition, the continued rapid reduction in federal funding has necessitated many Indiana state agencies to now consider wholesale lay-offs of state employees.

This is unfortunate inasmuch as these laid off state employees will now be eligible for unemployment and, in some cases, welfare benefits, thus increasing the tax burden.

ISEA respectfully requests that any changes in policy and funding that affects state government be done with sufficient advance notice to enable the affected governments to plan and implement the new programs so that hardships may be minimized.

In closing, I would also request that ISEA be advised of the results of the field hearings and be given copies of all relevant testimonies.

Looking forward to hearing from you, I remain,

Yours for better government,

LARRY D. KUMP, *Executive Director.*

INDIANAPOLIS PUBLIC TRANSPORTATION CORP.,
Indianapolis, Ind., December 4, 1981.

(Attention of Hon. Dan Rostenkowski, chairman).

HOUSE WAYS AND MEANS COMMITTEE,
House of Representatives,
Washington, D.C.

DEAR MR. CONGRESSMAN: Please accept the information set forth in this letter as supplemental testimony received by your committee at a public hearing held in Indianapolis, Indiana on Monday, December 7, 1981.

The Indianapolis Public Transportation Corporation (METRO) provides Urban transportation services to the Indianapolis/Marion County area. METRO has 231 vehicles on 38 bus routes operating over 22,000 miles each day. Over 55,000 daily transit trips are taken on METRO by the citizens of this area.

METRO's operating budget totals $17.3 million. Approximately 47 percent of our budget is derived through direct user fees (fareboxes). Local and State funds make up approximately 25 percent and the remaining percentage is provided through the Federal Department of Transportation Urban Mass Transportation Administration's Section 5 Operating Assistance Program.

I'm sure your committee is well aware the current adminstration proposes to phase out operating assistance and end the program by 1984. The loss of these will greatly curtail METRO's ability to continue to provide the citizens of this area with transit services. Specifically, during the coming three-year period, METRO will lose over $10 million resulting in a budget deficit in 1984 of almost $4 million.

Obviously, in addition to losing a significant number of riders, service cutbacks, curtailment of special services for the elderly and handicapped and continuing fare increases will be necessary.

Therefore, on behalf of area citizens who depend or choose our services, we urge your support in the continuation of the federal operating assistance program.

Thank you for your consideration and if you should have any questions or if I can provide further information, please let me know.

Respectfully,

ROBERT D. LORAH, *General Manager.*

MONROE COUNTY UNITED MINISTRIES, INC.,
Bloomington, Ind., November 30, 1981.

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means,
Longworth House Office Building,
Washington, D.C.

DEAR MR. SALMON: As a spokesman from the Monroe County United Ministries in Bloomington, Indiana, I have the following concerns of administrative budget cuts materialize.

1. Reduction of our adminstrative staff will have a devastating impact on our services, programs, and the economically disadvantaged people. The people that would hurt most will be children, adults, and seniors that are poor and needy.
2. Decrease our ability to organize and adequately use the resources available.
3. Administrators in organizations such as ours are impaired and overworked. Our survival, effectiveness, and efficiency depend upon them. Any cuts in this area will affect work incentives, work habits, and morale of people.

Therefore, I would like to make the following recommendations:

1. In view of the quality of programs, please propose no administrative budgetary cuts.
2. Let administrators make such decisions where cuts are necessary.

3. Adequate evaluation must be conducted to weigh the difference between the merits and disadvantages. That job belongs to professional evaluators. Decisions should be made on the information given by the experts.

Thank you very much for this opportunity to share with you and others.

Sincerely,

EDGAR DASS, *Executive Director.*

MARION COUNTY DEPARTMENT OF PUBLIC WELFARE,
Indianapolis, Ind., January 25, 1982.

Hon. DAN ROSTENKOWSKI,
Chairman, House Ways and Means Committee,
Rayburn House Office Building, Washington, D.C.

DEAR MR. ROSTENKOWSKI: I recently attended the Hearing of the House Ways and Means Committee in Indianapolis. As Director of the largest welfare department in the state, with an annual budget of $41 million, in addition to dispensing over $45 million in Food Stamps last year, I feel qualified to make a few observations about our welfare programs. Even more significant, after talking with dozens of our caseworkers who are in the front ranks, I discovered that most of them share my views. There has been a significant change in the attitude of caseworkers regarding welfare in the past few years. Almost without exception, they are in favor of the administration's attempt to cut back entitlement programs, and their only criticism is that we have not gone far enough.

The most recent changes in AFDC resulted in about twelve percent of our cases being discontinued, with a dollar reduction of less than seven percent. Those families who were discontinued were ones in which the recipients were employed, or there was a substantial income from other sources which had previously been disregarded in determining eligibility. Many employed mothers who were receiving AFDC immediately quit their jobs or chose to work less hours so they could continue to get welfare. There is something inherently wrong with a system which allows individuals to have a choice between living off welfare or supporting themselves.

Our caseworkers are seeing AFDC mothers who are not working simply because they have children under six years of age. They are living a comfortable life with not only a monthly welfare check, but a plethora of additional benefits which are not available to the ordinary taxpaying citizen: free Food Stamps, free comprehensive medical services, including transportation, free child care, and free legal services. Our employees are not so fortunate. Many of them are finding it necessary to work a second job just to meet increasing expenses. Our caseworkers return to work following maternal leave as quickly as the doctor will release them; they cannot afford to stay home until their children reach age six. I have heard them say they cannot afford to have more than one or two children, yet they are working with AFDC mothers who get a "bonus" for each additional child.

Most Americans are willing to help families who are totally unable to provide for themselves. However, welfare has become a way of life for too many people who have no initiative to do anything except wait for their monthly welfare check. This attitude was dramatically exemplified in a recent incident involving one of our caseworkers. During a home visit, a small child asked her recipient mother who the caseworker was. The mother replied, "Oh, that lady is my caseworker. When you grow up, you will have one, too." I submit this is not the American way and is a sad commentary on our society. Rather than encouraging families to be independent, our system has resulted in the welfare rolls increasing at an alarming rate. Too many AFDC families are far better off financially than the two-parent working family who is supporting themselves and paying taxes to support those who prefer a different way of life.

I enthusiastically endorse the administration's proposal to return to the States the administration and control of entitlement programs. Who knows better than the local citizenry who are the truly needy persons in a community? States and local governments can do a far better job of defining priorities and targeting areas of needs than a paternalistic government working through the morass of rules and regulations established by a bloated bureaucracy that is out of touch with relatives of a program. The reduction in administrative overhead would in itself be significant.

Our present system of public welfare has fostered illegitimacy, dependency, erosion of family strengths, and perpetuated a class of non-productive citizens who have no interest or motivation for altering their way of life. It is time for a change.

Sincerely,

ELIZABETH SAMKOWSKI, *Director.*

THE NEAR EASTSIDE UNITED METHODIST PARISH
Indianapolis, Ind., February 11, 1982.

Congressman DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
U.S. House of Representatives, Washington, D.C.

DEAR REPRESENTATIVE ROSTENKOWSKI: Thank you for your letter regarding the recent visit of The Committee On Ways and Means to our area of Indianapolis. Since the time of your visit, further cuts have been made which will influence the quality of life and the proposed "new Federalism" has been unveiled, raising for me a sincere concern for the future.

For what it may be worth, I want to share a personal assesment of the feelings I am encountering in this inner-urban area.

(1) I think it is about time that influential persons and groups begin a hold support of the group that we refer to as "our poor." What I have come to realize in my ministry in the inner city is that many of the less fortunate residents of our area have a tremendous ability to survive great difficulties. What concerns me is that we tend, as a Nation, to take advantage of that very important quality, even to the extent that the poor become the scapegoats for our economic difficulties.

I firmly believe that if real sacrifice was asked of the middle and upper income population of America, many would fold up their lives and quit. But because the "less well off" have the ability to roll with the punches of life and have the least powerful lobby voice, the easy way out is to lean heavily on that group.

I guess I would not consider White House decorations, china, silverware, Congressional non-taxed salary increases and such a shining example of a determined effort to work together sacrificially.

(2) I think it is a moral injustice to continually talk about welfare abuse and the need to cut the waste out of social programs, and at the same time turn our heads to defense and corporate abuse. Not much is said of the continual over-run of defense contracts or the amount of money lost through corporate income tax evasion. My hunch is that by the time it is over, the President will spend more money selling his economic approach than is represented by welfare abuse annually. I wouldn't mind the Presidential visits so much if these visits represented a reaching out to the people, but a grand total of 45 minutes in Indianapolis could hardly be called more than a blinking of an eye.

(3) I think it is degrading to hear us continually talk about national defense without dealing primarily with human defense. Human pride and dignity ought to represent a higher priority then the ability to overkill a foreign nation one or two times. As a Professor at IUPUI recently commented, if the Secretary Of Defense has his total way, he would probably put a battle ship on the White River.

There is so much more that could and should be said. Perhaps this is enough to let you know of the concern, regret and fear which many of us feel regarding out National future.

I appreciate the willingness of your committee to take time to try and sense what is going on in the urban areas of our country. It is my hope that the coming debates on the budget will be more about people than dollars and cents.

Sincerely,

ROBERT OCHSENRIDER,
Senior Pastor.

IMPACT OF THE ADMINISTRATION'S BUDGET CUTS

TUESDAY, DECEMBER 8, 1981

House of Representatives,
Committee on Ways and Means,
Detroit, Mich.

The committee met at 9 a.m., pursuant to notice, in the auditorium, City-County Building, Detroit, Mich., Hon. Dan Rostenkowski (chairman of the committee) presiding.

[Material pertinent to the Detroit hearing follows:]

FOR IMMEDIATE RELEASE
DECEMBER 4, 1981

COMMITTEE ON WAYS AND MEANS PR #16
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-3627

THE HONORABLE DAN ROSTENKOWSKI (D., ILL.), CHAIRMAN, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES FURTHER DETAILS ON THE REGIONAL FIELD HEARING TO BE HELD IN DETROIT, MICHIGAN, ON DECEMBER 8, 1981
ON
THE IMPACT OF THE ADMINISTRATION'S BUDGET CUTS

The Honorable Dan Rostenkowski (D., Ill.), Chairman, Committee on Ways and Means, U.S. House of Representatives, today announced further details on the field hearing in Detroit, Michigan, on Tuesday, December 8, 1981 (as previously announced in press release #14), to assess the impact of the Administration's budget cuts.

TENTATIVE LIST OF WITNESSES

PUBLIC HEARING -- BEGINNING AT 9:00 A.M.

AUDITORIUM (13TH FLOOR) CITY-COUNTY BUILDING
DETROIT, MICHIGAN

The Honorable Coleman Young, Mayor of Detroit

* * *

The Honorable Bobby Crim, Speaker,
Michigan House of Representatives

* * *

Douglas Fraser, President, International Union, United Automobile, Aerospace & Agricultural Implement Workers (UAW), accompanied by Frank Dedvukaj, William Henderson, Greg Youngblood and Blaine Marrin, members of UAW

* * *

PANEL:

Dr. Jack Dempsey, Director, Michigan Department of Social Services

S. Martin Taylor, Director, Michigan Employment Security Commission

PANEL:

The Honorable Frank J. Lada, Mayor of Allen Park, Chairman of the Board of Directors, Downriver Community Conference

Laurence Hilldore, Director, Social Services Department, Ottawa County

Irvin Steiner, Commissioner, Wayne County

Robert L. Little, Director, Social Services Department, Wayne County

* * *

PANEL:

Gerald Hicks, Executive Director, Michigan Federation of Child and Family Agencies

Leslie Sinclair, President, Michigan Rehabilitation Association

Virginia Crowthers, Executive Director, Detroit Area Agency on Aging

Lily Wright, former AFDC recipient

* * *

PANEL:

Ed Foster, Executive Director, United Way of Grand Rapids

E. W. Anderson, Chairman of Government Relations, Round Table, Detroit Chamber of Commerce

* * *

NINETY-SEVENTH CONGRESS
DAN ROSTENKOWSKI, ILL., CHAIRMAN

SAM M. GIBBONS, FLA.
J. J. PICKLE, TEX.
CHARLES B. RANGEL, N.Y.
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JAMES R. JONES, OKLA.
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JOHN J. SALMON, CHIEF COUNSEL
JOSEPH K. DOWLEY, ASSISTANT CHIEF COUNSEL
ROBERT J. LEONARD, CHIEF TAX COUNSEL
A. L. SINGLETON, MINORITY CHIEF OF STAFF

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

TELEPHONE (202) 225-3625

BACKGROUND INFORMATION PREPARED FOR THE DETROIT HEARING

ON THE IMPACT OF CHANGES AND BUDGET CUTS IN PROGRAMS UNDER THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

Tuesday, December 8, 1981
9:00 a.m.

Thirteenth Floor Auditorium
City-County Building

Detroit, Michigan

Before the

Committee on Ways and Means

U.S. House of Representatives

BEST COPY AVAILABLE

A. PROFILE OF DETROIT*

Detroit is a distressed city in a distressed region. Both the City of Detroit (population 1.2 million) and the metropolitan area (population 4.4 million) lost population between 1970 and 1980, although the loss was far more dramatic in the central city (down 20 percent) than for the SMSA (down 2 percent). During this period, the composition of Detroit's population shifted from predominantly white to predominantly black. Already suffering from the long-term erosion of an aging industrial economic base, the local economy is now reeling from the crisis in the American automobile industry. The Department of Labor reports an unemployment rate of 16 percent; however, city officials say that the actual figure is probably closer to 20 percent, since many workers have given up looking for work.

The loss of population and economic activity has had severe implications for the city's fiscal condition. Despite sharp increases in the property tax rate, the value of real property and city revenues have not kept pace with inflation. Detroit has increasingly turned to state and federal assistance to finance essential services. City revenues for 1980-81 include $336 million from federal sources and $250 million from the State of Michigan. General revenue sharing and other federal grants account for 23 percent of total city revenues of $1.5 billion. Local revenues account for only 60 percent of total city expenditures, despite a high tax effort.

In 1980-81, Detroit received $105.8 million from Comprehensive Employment Training grants, $68.5 million from Community Development Block Grants, $57.8 million in General Revenue Sharing and $104.1 million in other direct federal grants. Aside from revenue sharing and direct federal grants-in-aid, millions of additional federal dollars flow to Detroit in the form of aid to the public school system, the airport and other non-city agencies and in the form of welfare payments and unemployment compensation to Detroit residents.

Even with extensive federal assistance, the city presently faces a $110 million operating deficit. To recoup this loss, the 1981-82 budget calls for the issuance of a deficit financing bond, wage freezes and rollbacks for city employees and further increases in city taxes on income, property and utilities. Still, Detroit faces the threat of receivership if it is not able to meet its fixed obligations and defaults on its bonds. Because the State of Michigan is in severe financial difficulty itself, it is in no position to help.

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* Extracts from 7/31/81 study prepared for the Joint Economic Committee, U. S. Congress, "The Regional and Urban Impacts of the Administration's Budget and Tax Proposals."

Budget Impact Summary

Because Detroit receives extensive federal aid for entitlement and categorical grants and because the city lacks alternative sources of funding to which it can turn, the reductions in federal spending will likely have a dramatic impact. Mayor Coleman Young has predicted that the cities and the poor will carry the "major burden" of the cutbacks. In a more blunt statement, the Director of Planning described the budget cuts as a "disaster" for Detroit. Additionally, since Detroit does not have alternative sources to fund programs, the loss of federal aid will likely bring a rapid halt to urban revitalization and economic development projects that relied on federal support. Low income Detroit residents will receive less direct federal assistance and find fewer social services available. In addition, city officials say that business tax credits for accelerated depreciation will not help investment in Detroit, because the credits do not apply to rehabilitation of existing plant and equipment.

B. WITNESS PROFILES

Douglas Fraser, President
International Union, United Automobile, Aerospace
and Agricultural Implement Workers of America (UAW)
accompanied by a panel of four unemployed UAW members:

Frank Dedvukaj was laid off from the Chrysler/Lynch Road Plant in Eldon, Michigan, 1 1/2 years ago. He had worked there 12 1/2 years as an assembler. His wife, Aga, was laid off from the Charlevoix Budd Plant in December 1980. She had worked as an assembler there for 5 years. Frank's unemployment benefits ran out last summer, and Aga's ran out in October. The couple and their three children, ages 15, 14 and 12, are not receiving any form of public assistance. They are afraid they will not be able to make the payments on their home. Frank is 58 and Aga, 42.

William "Bob" Henderson has been unemployed since the June, 1980, closing of the Dana Corporation Plant in Ecorse, Michigan. He had worked there for 15 years as a hi-lo driver and crane operator. Before that, he had worked at a service station in Florida. Bob is married and has three children, one of whom is 9 years old and lives at home. His wife does not work. The family has been receiving public assistance since January, 1981.

Greg Youngblood was laid off from the Massey Ferguson plant on West Chicago Avenue in Detroit in July, 1980. He had worked there for 2 1/2 years as a machine operator. Before that, he worked at Sherwood brass for 10 years and served in Vietnam, where he received an eye injury. His wife, who did not graduate from high school, does not work. The couple has been receiving general assistance and food stamps since his unemployment compensation ran out. They may lose their family vehicle.

Blaine Marrin worked as a skilled tradesman in Fisher Body plants #10, #1 and #21 and in Fleetwood #18 between 1926 and 1942. In 1942, he took a leave of absence from Fisher Body to work for UAW local 157, first as financial secretary, then as vice-president and finally as President from 1952 until his retirement in 1972. Since the death of his first wife he has remarried. He has two children; a son in college and a married daughter. He is 75 years old.

Panel of State and Local Officials:

The Honorable Frank J. Lada is Mayor of Allen Park. He has been Chairman of the Downriver Community Conference since its inception. He is the Chairman of HUD Community Block Program which encompasses 32 municipalities, and he is also Chairman of Cities and Villages Block S.E.M.O.G. (Southeastern Municipalities of Government).

Lawrence Hilldore is Director of the Social Service Department in Ottawa County. Mr. Hilldore's Department has been involved in organizing "Love, Inc.," a cooperative effort by church and other private groups to provide services and funds to people who are eligible for no help or insufficient help from the government. This program has been noticed by communities in other states and may serve as a model for similar efforts elsewhere.

Robert L. Little is Director/Area Manager of Wayne County, Michigan, Department of Social Services, a position he has held since October, 1980. His appointment was made after serving as Acting Director for six months and Deputy Director for one year. He has over twenty years' experience as social worker and administrator. Mr. Little assumes responsibility for the overall performance of each unit within Wayne County which provides social services and financial assistance to the residents of the fourth largest county in the entire United States.

Ervin A. Steiner, Commissioner, Wayne County, is a long-time resident of the Detroit area and has served as a commissioner for 11 years. He was also Chairman of the Ways and Means Committee (which has jurisdiction over budget and fiscal matters) of the Commission in 1980.

Panel on Human Impact:

Gerald Hicks is Executive Director of the Michigan Federation of Private Child and Family Agencies. He has 25 years of experience in children's services, about equally divided between the public and private sectors of the Children's Services System. He has held the position of Executive Director since June of 1977. Prior to that, he was Director of the Office of Children and Youth Services of the Michigan Department of Social Services. He is presently the Chairperson of the Office of Regional, Provincial and State Child Care Associations, a division of the Child Welfare League of America.

Leslie Sinclair is President of the Michigan Rehabilitation Association. This association which is the State Chapter of the National Rehabilitation Association is made up of several hundred rehabilitation professionals from may public and private agencies and organizations. It promotes improved life opportunities for handicapped citizens and also promotes the rehabilitation profession. Mr. Sinclair, a graduate student in public administration at Western Michigan University, is a federal relations coordinator with the Michigan Department of Transportation. He has recently completed a three year appointment by Governor Milliken to the Michigan Commission on Handicapped Concerns where he had previously served as Executive Director.

Virginia Crowthers is Executive Director of the Detroit Area Agency on Aging, a public organization established under The Older Americans Act, which provides a wide-range of services to senior citizens in the Detroit area. As part of its assistance to the elderly, the Agency oversees 95 congregate meal sites; runs the Meals on Wheels program; runs the legal aid program for the elderly; runs the day care program for the elderly; provides home health care and personal care services as well as escort services, for senior citizens; monitors nursing homes to insure quality service and care; and provides information and referrals to senior citizens regarding all programs for the elderly in the Detroit are.

Lily Wright, former AFDC recipient, is a 40-year-old woman who works full time for the Health Department of the City of Detroit. She is the mother of five children ranging in ages from 10 to 18 years of age and is the head of her household. Due to recent formula changes under the Budget Reconciliation Act, Ms. Wright was recently dropped from the AFDC rolls because her income from her job is too high. As a result, she has lost all medical coverage for herself and her children.

Panel on Private Initiatives

Ed Foster is Executive Director of United Way of Grand Rapids. Foster has long-term (37 years) national and local experience in United Way. He recently conducted a highly successful fund-raising effort. In addition, he has good knowledge of various social and human services programs in the Grand Rapids area.

E. W. Anderson is Chairman of the Government Relations Round Table of the Greater Detroit Chamber of Commerce. The Round Table is currently studying local needs resulting from reductions in federal funding with a view to recommending actions on behalf of the business community in response to these needs. Mr. Anderson is also vice president and secretary of Federal-Mogul Corporation.

III. IMPACT OF BUDGET REDUCTIONS ON MICHIGAN *

The Reconciliation Budget passed by the Congress will cause Michigan to lose a minimum of $685 million in federal funds in the 1981-82 fiscal year. The budget sets authorization levels, and if the appropriations bills that the Congress is working on at the present time include figures that are lower the state will incur even greater losses.

Many of the program cuts will force the state to reduce educational, health, employment and social services programs. Some of the programs that will be cut will result in immediate increased costs in other programs. Other cuts, such as in student loan programs, benefits for pregnant mothers, nutrition programs and the like, could have both short-term and long-term ramifications that cannot be foreseen, only estimated.

A. EMPLOYMENT

1. Unemployment Insurance - The Budget Act modified the method for calculating whether a state is economically distressed and therefore eligible for the "extended benefits" program. That program provides up to 13 weeks of unemployment compensation benefits for those who have exhausted their unemployment benefits (maximum duration of 26 weeks) under the state compensation program. As a result of this federal statutory change, Michigan lost its extended benefits program at the beginning of December. Over 45,000 persons had been receiving extended unemployment benefits. (Over 327,000 persons have received this type of benefit since the extended benefits program triggered "on" in October of 1979.) In calendar year 1980, approximately $6.5 million was paid out to the unemployed in extended benefits.

The Budget Act also levied an interest charge on all funds borrowed from the federal UI trust fund after April, 1982. Michigan has borrowed $1.015 billion from the federal unemployment insurance trust fund as of October 31, 1981, to meet the benefit costs associated with its high levels of unemployment. On November 9, 1981, the state sent in a request for an additional $170 million in loans to pay for December, January and February benefits. The state anticipates having to borrow another $200 million before April 1, 1982, and $50 million more after April 1. The net total by the end of 1982 will be approximately $1.5 billion.

Michigan will have to pay approximately $5 million in interest on the $50 million borrowed after April 1.

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*Information condensed from state legislature material.

An additional employer unemployment insurance tax will be imposed to pay off the old debt. Interest cannot be paid from the UI fund, and since Michigan's general revenues are depleted, some sort of surcharge will probably be imposed to pay the interest.

2. Trade Readjustment Act benefits - Modifications in the TRA program will reduce benefits to Michigan claimants by $60 million in the 1981-82 fiscal year. The Reconciliation Budget reduced the level of benefits, delayed application until unemployment insurance benefits are exhausted, and placed a maximum 52-week benefit period on UI and TRA combined. The direct effect on public assistance programs is unknown.

B. HUMAN SERVICES PROGRAMS

1. AFDC - The Reconciliation Budget will eliminate benefits to as many as 30,000 families presently covered under the AFDC program. Many of the reductions deal with incentives to work: a client's deductible work expenses are reduced, allowable resources are reduced from $2,000 to $1,000, benefits for college students are reduced, strikers' benefits are eliminated and benefits to unborn children are withheld until the mother's sixth month of pregnancy. It is expected that these cuts will cause increased expenditures in the General Assistance and Emergency Assistance programs and will lengthen the period of time that AFDC recipients remain on public assistance.

2. Food Stamps - The number of persons eligible for food stamps is reduced. Families earning more than 130% of the poverty level will be ineligible to receive stamps. Other restrictions also reduce eligibility -- adjustments for inflation are delayed, strikers are excluded, household income is redefined and earned income deduction levels are reduced. As a result, Michigan residents will receive $59.8 million less in food stamp dollars.

3. Social Services - The Social Services Block Grant combines the funding for social services and social services staff training. Funding is reduced by 20%, which will result in a loss of $30 million in Michigan. Programs currently funded by Title XX include community placement for adults and children; day care; services for neglected, abused and delinquent children and similar programs. States may transfer up to 10% of the block funds to other human services block grants. The states' flexibility in this program is limited because a reduction in many of the currently funded programs will result in increased expenditures in other areas, such as foster care homes or institutions.

4. Child Nutrition - The USDA food program, which partially reimburses schools and certain child care programs for expenses related to providing meals to children of low-income families, has been significantly reduced. The loss to the state is estimated at $23.9 million, $18.9 million of which will be lost to school districts. Reimbursement rates for meals have been reduced, the number of daily meals was reduced, and the food service equipment purchase program was eliminated.

5. Assisted Housing - Low-income persons living in assisted housing will be expected to pay 30% rather than 25% of their income for rent. The increase is effective October 1, 1981, for new tenants and will be phased in for persons currently receiving rent subsidies over a five-year period. Changes in regulations will result in less of an economic mix in many housing developments, as the working poor will, more or less, be excluded from subsidized housing projects.

C. ECONOMIC DEVELOPMENT

1. CETA - The Reconciliation Budget phases out public service employment programs by the end of next year. When the hiring freeze went into effect this year, there were 18,600 persons enrolled in the program. If all current public service CETA employees were laid off, the state's unemployment rate would be increased 0.4%, adding $3 million to the cost of public assistance.

2. Youth Conservation Corps - Funding for this program, serving approximately 300 youth, was eliminated. Michigan's summer unemployment rate is 32% for all youth, 52% for non-white youth.

3. Community Development Block Grant - Funds for this program were cut by 10%, a loss of $15 million to Michigan.

4. Urban Development Action Grants - The UDAG program has been continued for the coming fiscal year within the Community Development budget, although the total allocations for the program have been reduced. Because the objective of UDAG is to stimulate the private sector to create employment by providing local jurisdictions with "up-front" money to capture private investment, any loss in federal funds will result in less private investment in a given area.

UDAG authorization is for two years. Fiscal 1982 and 1983 total authorizations of $4.166 billion for Community Development Block Grants include a reduction in the UDAG authorization to $500 million a year from the $675 million authorized by the Housing and Community Development Act of 1980, resulting in a probable loss to Michigan of $13.5 million.

D. HIGHER EDUCATION

The precise impact of higher education cuts on the Michigan budget is unknown, because the cuts focus on aid to individual families. State-funded loan and grant programs are totally committed for 1981-82, so the state has no ability to alter priorities in response to changes in federal aid programs. The Guaranteed Student Loan Program may by reduced by half ($150 million) because of the cap placed on eligibility. Pell Grants will be reduced by about $6 million in the state, because grants have been reduced by about $200 per student.

Social Security education benefits have also been reduced, costing Michigan about $24 million in the coming fiscal year. This program is targeted for a four-year phase-out. The National Defense Student Loan program is slightly reduced. Interest rates increase from 4% to 5%, and there will be no inflationary increase.

E. K-12 EDUCATION

The state's schools will lose an estimated $18.9 million in funding for school lunch programs. The state will also lose about $4 million in Title I funding, $3.75 million in Vocational Education and $1.5 million in Impact Aid. There are significant reductions in funds which school districts in the past have applied for directly, and the loss and impact here is difficult to assess. It is estimated that the loss will not exceed $20 million in 1981-82.

F. ENVIRONMENT

The Reconciliation Budget contains spending limitations for a few broad program areas in environmental programs, so it is difficult to determine the exact budget impact on Michigan. The Youth Conservation Corps and the Young Adult Conservation Corps were eliminated, resulting in a $3.6 million loss to Michigan. The greatest loss of funding will be about $90 million, which was targeted for waste water treatment construction grants.

IV. PROGRAM CUTS ALREADY ADOPTED BY STATE OF MICHIGAN*

The cuts listed below were enacted during the current fiscal year (Fiscal Year 1980-81). They do not include the pending Executive Order (state) for $135 million additional cuts. Nor do they include the federal cuts. All federal cuts will be on top of the cuts listed here.

A. EDUCATION

- The level of state funding for education dropped over $223 million from Fiscal Year 1980 to Fiscal Year 1981;
- All categorical programs were cut 30%. Some of these programs include: school breakfast and lunch programs, apprenticeship training, vocational rehabilitation, special education, alternative juvenile programs, bilingual education;
- Programs eliminated included assistance to districts with declining enrollment and aid to assist districts with capital outlay needs. (This is a tax relief program.)

B. LABOR

- Reduction of $500,000 in grants to 29 community action agencies. These agencies help develop and administer employment programs, energy and weatherization services, Head Start and day care, senior services and many other community services.
- Reduction of $787,000 in the Michigan Employment Program and the elimination of the Local Youth Employment Program. These programs have been providing jobs and job training for unemployed youth. Note: It was expected that these programs would be replaced by CETA funds, but the federal government has announced that the CETA program will be terminated;
- Reduction in weatherization model projects programs which will result in 550 fewer homes being weatherized.
- Elimination of the neighborhood assistance partnership program grants which are designed to enable businesses to enter into contracts with neighborhood associations to provide job training and community services.

C. DEPARTMENT OF MENTAL HEALTH

- More than 3,000 employees have been laid off, most of whom were employed at state institutions where there have been unexpected increases in involuntary admissions. People seeking voluntary admission to state hospitals have been turned away because there is no room.

*Information condensed from the state legislature material.

- Community placement programs are behind their targets because of reluctance to allow more than a 12% return on investments by persons who lease facilities to the state;

- Several programs have been delayed because of short-falls in the budget: the foster grandparent program for the mentally retarded, research programs and prevention programs in the community;

- The department cannot pay its workers' compensation and unemployment compensation claims this year without supplemental appropriations from the general fund.

D. DEPARTMENT OF PUBLIC HEALTH

- There has been a 20% reduction in funding for the department;

- In substance abuse programs, 43 programs have been cut in this year (a 15% reduction in service) while service demand has increased 12%. Approximately 4000 less people with substance abuse problems will be served. Total OSAS cuts were $4.4 million (19.7%)

- Maternal, infant and children's health care projects were cut $1 million. In Wayne County alone, 3 health centers were closed, 5700 fewer children were served and 1000 fewer pregnant women were served.

- Funding to local department was cut $5 million-- the state has started to reduce funding to 50% of funding needs for local departments. Some consequences of this cut: 8200 fewer children will be screened for hearing problems and 7500 fewer children for vision problems in Detroit; 1400 fewer children screened for hearing and 700 fewer for vision problems in Calhoun County; 11,600 fewer immunizations in Macomb County; 42,000 fewer immunizations in out-county Wayne County.

E. DEPARTMENT OF SOCIAL SERVICES

- Caseloads for ADC have grown over 15%, for General Assistance over 120% and the emergency needs program has increased 55%, all in this year alone.

- Grant levels for ADC clients have been reduced 4% from October, 1980, levels which puts these recipients at 55% of the poverty level. Purchasing power of grants for both ADC and GA recipients are less in 1981 than in 1971;

- Grants levels for GA clients have been reduced 4% from October, 1980, levels which puts these recipients at 55% of the poverty level. Purchasing power of grants for both ADC and GA recipients are less in 1981 than in 1971;

- Grants levels for both ADC and GA were cut an additional 5% for the months of June and July;

- The state portion of grants for Supplemental Security Income recipients was reduced to December, 1976, levels. These reductions in state funding, even though partially offset by federal funding increases, have left approximately 110,000 aged, blind and disabled people at constant grant levels for the last year.

- Reductions in day care center rates have put more pressure on centers to survive and therefore affected mothers who are working or going to school in order to get off welfare;

- There have been reductions in dispensing fees to pharmacies;

- There has been a 7% reduction in fees paid to physicians resulting in decreased enrollment of medicaid physicians.

V. MICHIGAN ECONOMIC AND PROGRAM DATA

A. STATE AFDC PROGRAM SUMMARY

Recipients (as of September 1981):

Number of Families	237,562
Individuals	741,959
Children	476,784 (64.3%)
AFDC-UP Families	38,026 (16%)
Average Family Size	3.12 members
Percent employed	12.3%

Monthly Benefits for a Family of Three (as of December 1981):

Wayne County "Standard of Need"	$421.00
Maximum amount paid	395.00
Percent of "need" paid	91.5%

Maximum monthly earnings at which a family of three loses eligibility for AFDC under provisions contained in FY 1982 Budget Reconciliation Act. (150 percent of State "Standard of Need")....................................$648.00

Maximim monthly earnings at which a family of three lost eligibility for AFDC, prior to FY 1982 Budget Reconciliation Act (assuming work expenses equal 20 percent of earnings and child care expenses of $150 per month). $1,210.00

Program Options (as of October 1, 1980):

1. Benefits for unemployed parents	YES
2. Benefits for unborn child	YES
3. Benefits for youngsters over 17 who are in school	NO
4. Emergency assistance	YES
5. Local government shares in AFDC costs	NO

Expenditures (preliminary Fiscal 1980 estimates):

Total	$1,021,019,093
Federal share	510,509,547
Percent paid by Federal	50%

*Program options repealed or restricted by FY 1982 Budget Reconciliation Act.

B. MICHIGAN UNEMPLOYMENT STATISTICS

Total unemployment rate for state	August 1980 12.5	November 1981 11.8*
Total unemployment rate for Detroit	August 1980 12.7	October 1981 12.3*
Insured unemployment rate (percent of workers covered under state unemployment compensation program claiming benefits):	11/8/80- 6.90	11/7/81- 4.93
Extended benefits "Trigger Rate" (extended benefits trigger off as of 12/7/81):	11/29/80- 8.44 (195%)	11/7/81- 4.93 (83%)

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* The drop in the official unemployment rates (from 1980 to 1981) is due to the fact that so many unemployed have given up even looking for jobs. The true unemployment rate for Detroit is actually closer to 16-20% at this time.

C. MICHIGAN UNEMPLOYMENT COMPENSATION PROGRAM

	11/15/80	11/14/81
Number of claimants for the state	193,800	179,300*
Number of claimants for Detroit SMSA	95,500	90,100*

	As of July, 1981
Maximum weekly payment	$ 182.00
Maximum number of weeks of state benefits	26
Requirements for maximum	4,680.00 in base period
State unemployment maximum/tax:	
Base	6,000.00
Rate	9.0%
Average state unemployment tax rate	4.0%
Outstanding Federal loans (as of 12/1/81)	$1,035,000,000
Total state benefits paid in 1980	$1,183,485,378
(through October, 1981)	$ 959,000,000

* While the unemployment rate has in actuality continued to rise, the number of claimants has dropped because so many unemployed workers have and are being dropped from the rolls since they have used up their benefits (i.e., are no longer eligible for UC)

Chairman **Rostenkowski**. The committee will come to order.

It is my privilege at this time to recognize an outstanding member and colleague of ours on the Ways and Means Committee, certainly a man who has made a name for himself in the Halls of the House of Representatives, Mr. Brodhead.

Mr. **Brodhead**. Thank you, Mr. Chairman.

On behalf of the Michigan delegation in the U.S. House of Representatives, I want to welcome you and this committee to Detroit and to the State of Michigan.

This State has been particularly hard hit by Reaganomics, by the recession, and by the myriad of problems that have been brought about for city and county government.

Our unemployment rate in this State is the highest in the country and for that reason it is particularly fitting that you should come, Mr. Chairman, to this State and to this city in order to hear from the people and their representatives about the impact of the Reagan program on our economy, and to try to get some insight into what we ought to be doing in the Congress to get this economy moving again.

Chairman **Rostenkowski**. Thank you. It is now my privilege to recognize a former member of the House of Representatives with whom we had the privilege of serving for several years, an outstanding Member of the other body, Senator Riegle.

STATEMENT OF HON. DONALD W. RIEGLE, JR., A U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator **Riegle**. Let me welcome you to the State of Michigan and say how pleased we are that you have come to hear the testimony from an outstanding witness list today headed by the mayor of the City of Detroit.

We are, as Congressman Brodhead has said, suffering enormous damage and hardship and misery in this State, and we welcome the opportunity to express that today and appeal to you for help with your important committee in the House, and in the House generally.

I want to particularly commend Congressman Brodhead for his initiative in helping to persuade the committee and all of you to come here to Detroit and to Michigan today.

Chairman **Rostenkowski**. Thank you, Senator.

Again, it is my privilege to recognize the gentleman who I understand had some training right in this Chamber.

Senator Levin.

STATEMENT OF HON. CARL LEVIN, A U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator **Levin**. I want to welcome you to Detroit, which is like a city hemorrhaging in pain.

This State, to start with, gets less return on tax dollars sent to Washington than any other State, 65 cents for every dollar sent.

Our region was decimated by the recent budget cuts. We lost $100 per capita in this whereas the South broke even and the West actually gained $50 per capita.

So much for equitable burdenship.

Cuts in unemployment compensation and other programs, particularly helpful to the older regions, left this highest unemployment State reeling.

Our middle- and low-income people watched helplessly as the President and the Congress in the tax bill shifted billions from persons earning under $50,000 to the pockets of wealthier Americans.

The final insult to the unemployed, Mr. Chairman, was when the White House said if the unemployed do not like what is happening, they should vote with their feet.

That is, move to the Sun Belt.

Protecting the social safety net, the administration is pushing workers off the roof and letting them free-fall to the pavement below.

There is real fear for the future and there is real anger here, not just against Reaganomics, but against the Congress, for not standing up and offering alternatives to the President's program.

The people look to you and with good reason. For some alternatives.

You have proven, Mr. Chairman, and other members of this committee, that you are willing to take a leadership role, to stand up. We thank you for that past leadership as we welcome you and thank you for caring enough to come to this city.

Chairman Rostenkowski. Thank you Senator, and I want to express my gratitude to all the members of the Michigan delegation for their cooperation.

To you, Mr. Mayor, a special note of thanks for rearranging your schedule to join with us.

We know how busy you are, but I take it that your concern is so great for what is happening in our economy that you have privileged us with attending this hearing.

A year ago the country voted for change, not just a change of Presidents, but a change in the way government does business.

President Reagan responded with $200 billion in spending cuts primarily out of human services as part of his supply-side economic plan.

Since then the country has slumped into a recession. Unemployment is approaching 9 percent. Business is hunkered down for a long winter.

The promise of a balanced budget has been forgotten.

The deficit this year is expected to climb as high as this morning's report of $108 billion.

Federal appropriations hang in mid-air as the Senate waits for the President to make up his mind on spending levels.

The President has begun the process of choosing new spending cuts for 1983.

We have come to Detroit with one central question: How strong is the so-called safety net for those people traditionally protected by Government, the elderly, the jobless, and the disabled.

We know how the administration stands on guns. It is the butter that this committee is worried about.

We have come to Detroit not just to measure the impact of this year's cuts, but to measure the capacity of State and local governments to absorb further cuts.

We have come to measure how well private industry and charity can fill the gap left by the Federal program cuts.

Only then can we on this committee and the Congress as a whole temper the President's economic theories with true human demands.

Mr. Mayor, it is a pleasure for us to have you with us this morning, and we are looking forward to your testimony. Please begin.

STATEMENT OF HON. COLEMAN YOUNG, MAYOR, CITY OF DETROIT, MICH.

Mr. Young. Thank you very much, Mr. Chairman.

I would like to welcome you and the members of your committee to the city of Detroit.

I think you can see how important your visit is by the presence on either side of me of Representatives, as you put it, of the other side of the House, as well as our representatives from your own house from Michigan. The whole Michigan delegation is concerned with the economic situation here in Detroit.

I do not think there is another city in the Nation that could better reflect the economic crisis that faces this whole Nation.

There has been a mistaken notion in this country that the economic crisis on which we find ourselves only affects the Midwest and the East—the so-called frostbelt—and that certain sections of the country, such as the South, the Southwest, are immune to economic recessions.

I think it is becoming increasingly clear that if unemployment in Detroit today is in the double digits, it is only a matter of time before unemployment in San Diego or Houston reaches that point.

I understand that the Golden State of California, the home of proposition 13, now faces, much like the State of Michigan, a deficit. And the city of Los Angeles as well as Oakland and San Francisco, like the city of Detroit, is in the process of laying off policemen and firemen. Unquestionably, Mr. Chairman, we face on a national level a serious economic crisis.

I am glad to see this committee come because we seem to be in the process of debating here a question which I thought had been solved in this country a long time ago.

The question is basically whether or not our Federal Government has any responsibility, yes; for social reform, yes; for the well-being of its people, whether or not maintaining the safety net, as you put it, amounts to intervening in the business of the people.

Well, you ask about the safety net.

I will tell you there is no safety net.

It has been ripped to shreds a long time ago.

As the Senator said, we are allowed to free-fall now, whatever heights, straight to the ground.

I would welcome, and I am sure the people of this city would welcome, the people of America would welcome, the people of America would welcome the type of intervention by the Federal Government that would provide a safety net, the type of intervention in the face of crisis that we had 2 or 3 years ago when we had an urban policy.

Today we face a crisis in our cities with no vestige of a policy addressing itself to the problems of those cities.

As a matter of fact, as has been pointed out, those of us who live in troubled economic areas have been admonished for the record to "vote with our feet," let the marketplace rule.

I don't think we've reached the luxury in America of "throw-away cities," disposable cities, or that we could walk away from the billions of dollars of investment in infrastructure from strategic loctions of such cities as Chicago, New York, Detroit, and so forth.

We have to debate again whether or not intervention is indeed interfering with the rights of the people.

It is my opinion that the failure of this administration to come forth with an urban policy marks a refusal to recognize that our cities are in crisis and more basically, if the cities are in crisis, if the cities are unstable, then the Nation is in a crisis.

I don't think there is any other civilized nation in the world except in the United States where this could be taking place.

Can you imagine the French people debating whether or not the citizens of Paris should vote with their feet, whether or not London should continue to exist, and yet this debate goes on here in our Nation.

Today, Mr. Chairman, unemployment in this city because of the impact of the crisis of the automobile industry is worse than at any time since the Great Depression.

Officially, by the Bureau of Labor Statistics, unemployment in our city today is some 15 percent, 14.9 percent. But, as you well know, this is the new method of calculating unemployment.

In 1978, we changed from the old way to the new way.

Now, as for me, I will take the old way.

Under the old method of calculation, unemployment in Detroit today is 21.5 percent. That is the highest it has been, and the first time that it has been over 20 percent again since the Great Depression.

So, we could play with numbers if we want to, but it seems to me that this Nation is in a state of crisis, its economic well-being is threatened, and the early warning to the whole Nation can be found in our cities.

I am glad this committee came to Detroit.

As Senator Levin said, the people in this city are concerned.

But, they are more than concerned. They are increasingly angry.

We feel that the Federal Government has a responsibility to this city.

We feel that there should be no question about whether or not social security should be paid. The question before us now should be what policy can the Federal Government advance that will stabilize the cities, will provide jobs for the unemployed and will protect our school children in their search for an education, and give some modicum of decency for the elderly.

You know better than I, as you contemplate budget slash after budget slash, that every area that I have described to you has been neglected.

I do not believe that this country can long continue along this line.

I believe we have reached the point now where it is increasingly clear that Reaganomics does not work; that it is disastrous for the people.

I believe that we must look to you, to Members of the Congress, to begin the long fight back in which the American people will engage in order to turn our country around.

I don't believe for one moment that the people in this Nation will stand for the type of benign, if not active, neglect to which we are being subjugated.

I believe that the fight back has begun, and I would hope that while you are here you would talk to some of the people in this city, visit autoworkers, get out on our streets, and learn of the growing determination of the people, the growing demand for a fight back.

We look to you, Mr. Chairman, and to the members of your committee to lead that fight back.

Chairman ROSTENKOWSKI. Thank you, Mr. Mayor.

As you know, we have been visiting major cities in the last 3½ weeks, and I think, Mr. Mayor, that this is evidence of the fact that some of us in the Washington Government are coming to the people to find out what is happening in the economy. I think it is good for the public to be aware that Members, not only of the Michigan delegation, but Members from all regions of the country are concerned with where we are going with respect to the economic future of this country.

I noted your observation about California that this morning there is a forecast that 9,400 people will be laid off at Lockheed, and I think your prediction of this unemployment lava creep across the country is quite accurate.

I would like to say on a personal basis, Mr. Mayor, I can understand why the people of Detroit have re-elected you, and I congratulate you on your testimony and express my appreciation for your joining us, and for the many courtesies you've extended to us.

Mr. Gibbons.

Mr. GIBBONS. I thank you, Mr. Mayor, and so do the Senators and my friend, Mr. Brodhead.

Do you see any turnaround in the unemployment slump in Detroit any time soon?

Mr. YOUNG. I can see no light at the end of the tunnel.

We keep hoping the light is there, but personally there is no indication from automobile sales and from the figures that we see that there is a turnaround forthcoming.

The prediction is that it will happen next summer. I hope that it does, but as far as I am concerned we cannot depend on that.

The people need help now and we are not going to have a turnaround unless we work to turn it around.

Mr. GIBBONS. What kind of services have you had to cut back because of the cutoff in Federal funds?

Mr. YOUNG. First of all, this city, like most, has been in a crisis for some time.

When I first took office, we had some 30,000 employees on the city payroll.

Today it is in the area of 20,000.

Some 2,000 or 3,000 of those were CETA employees who did perform a basic and vital function for our city.

I consider what is happening today a continuation of 1976 and 1977. The State of Michigan laid off State police officers for the first time in its history.

That did not even happen in the Great Depression, we are feeling the effects in many areas which our budget does not touch.

We do not provide money for senior citizens directly from the city general fund.

We do not provide money for education, and yet this city is very directly affected when our seniors starve, and our children's education is neglected, when food stamps are denied the needy as they are today in the city of Detroit, and so the effect of the cutbacks on us is both direct and indirect, and the indirect impact is every bit as painful.

Mr. GIBBONS. Has the cutback of the police force done anything to the increase in crime?

Mr. YOUNG. I do not believe that there has been any significant increase or any increase in crime as a result of the cutback in the police force, because Detroit is a strong city. The people are strong and have cooperated with those police who have remained in order to assist in enforcing the law and protecting the population.

But I can say this: there has to be a limit. We are at the bone now.

We are literally stretching and we are not prepared for some unforeseen emergency.

Today the headlines are filled with stories of would-be assassins, and we know of the sabotage and terrorism that is abroad in the land.

We are ill-prepared for that in this city or any other city.

It is a matter of serious concern and we sit here today with Congress holding a hearing on a most important matter.

I don't believe that there is adequate protection, if all I read in the headlines is true about what is going on in the world; well, I don't know whether they are headlines or whether they are true.

I hope you gentlemen feel comfortable. We are doing our best to keep you safe.

Mr. GIBBONS. Thank you, Mr. Mayor.

Chairman ROSTENKOWSKI. Mr. Brodhead.

Mr. BRODHEAD. Thank you, Mr. Chairman.

Thank you for a good statement, Mr. Mayor, and I think one of the important things that people need to realize about this Reaganomic program is that it has been done in the name of cutting the budget.

It has been done in the name of a sane fiscal policy, but really it is not a sane fiscal policy.

The Detroit Free Press this morning carried an article entitled "Budget Forecast Blooming" where they say the Reagan administration economists estimate in the current fiscal year there will be a deficit of $109 billion. That is a $50 billion increase in the deficit over the last fiscal year. So the first Reagan budget makes a $50 billion increase in the Federal deficit, and takes the total Federal debt over $1 trillion for the first time in the history of our country, that has been the effect of the Reagan program.

The sad thing is, these budget cuts are being sold to the people as part of a responsible fiscal policy when in fact there is not one.

The policy of tight money drives up the cost of the Federal Government. The recession that the Reagan economic program has brought on drives up the Federal deficit, as does the fact that the Reagan budget, while it cuts the social programs, does not cut pork barrel projects. The pork barrel continues on.

It does not cut the weapons system. Rather, we are embarking as a Nation on a huge program of building vastly expensive new weapons systems. At the same time, we are trying to tell our people that we have a responsible fiscal policy. Yet record deficit figures are the result, and so I think that it is important that you realize, as we are coming to realize, that this program is as Mayor Koch of New York called it the other day, a sham and a shame.

It is a sham because it is not a responsible fiscal policy. It has been proven before, and will be proven again, that we can have a humane social policy and responsible fiscal policy at the same time so, I think that you have contributed greatly to the knowledge of this committee in this regard, and I thank you very much for an eloquent statement.

Chairman ROSTENKOWSKI. Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman.

I have one question.

You indicated in your statement that the official unemployment statistic is about 15 percent, 14.9, but that if it were calculated under a more accurate way of figuring the unemployment rate, it would be over 21 percent, is that right?

Mr. YOUNG. Yes.

Mr. JENKINS. Are you saying that there are numerous people, the difference between that 14.9 and 21 who have just simply given up and do not go by the employment office?

Mr. YOUNG. That is part of it, but its even more precise than that.

In 1978 the Department of Labor came up with a new method of calculating unemployment.

As I understand it, this method was based upon population projections for a given area.

It was a broad and loose estimate.

Those of us in the U.S. Conference of Mayors became alarmed as we looked across the Nation and saw, almost without exception, the new method resulted in a substantially lower figure than the old method.

Inasmuch as the figures are based on unemployment, people received less money.

There are actually two formulas. The best proof of that, Congressman, under the old CETA bill, there was a provision, as you may recall, that unemployment could be measured for the purpose of receiving CETA assistance under either formula, whichever one was in favor of the city.

So the new method, as a matter of fact, does tend to cut as a general rule the unemployment figures by as much as one-third.

Mr. JENKINS. You are saying that in Detroit today more than one out of five able-bodied people seeking employment cannot find employment?

Mr. **Young**. That's exactly what I am saying, and that is according to a long-established formula developed by the Department of Labor, not developed here in the city of Detroit.

Chairman **Rostenkowski**. Mr. Gephardt?

Mr. **Gephardt**. Thank you, Mr. Chairman, and Senators, your statements were excellent and I appreciate the opportunity to be here today.

I would like to focus on your city budget and the effect the Federal cuts have had on it.

We are here today to try to determine what effect the program cuts have had so far and the effect they may have in the future if they are extended. My question comes in two parts:

First, what effect has the program had on your budget so far? What is your budget and how much has it been reduced because of the Reagan budget cuts, and what will happen to your budget if we have another 12-percent across-the-board cut or another round of cuts next year in the 1983 budget which affects programs like revenue sharing, like UDAG, EDA, community development block grant, and some of the programs for people like medicaid and medicare, housing, and so forth?

Mr. **Young**. Well, as I indicated to you, it is not new to this city and most other cities.

We have been in the process of budget trimming for a long time. We were cutting back when Senator Levin was still on the city council, so I am sure he is familiar with the process.

We just emerged last year with great effort actually reducing our indebtedness by $300 million.

Now, when you consider a total budget of a city is short $1,500,000, then you are talking about one-fifth, 20 percent of the budget.

We had to raise taxes. We had to float bonds.

We had to call upon employees of the city of Detroit to accept a wage freeze for the next 2 years, tighten our belts to that extent in order to keep this city afloat.

Now we hear about new cuts. Our considerable strenuous efforts to balance the budget was based on some expectation of a continuation at a minimum level funding on both the Federal and State level.

I cannot tell you at this moment.

This is December, the sixth month in our new budget.

The first test of whether or not we have in fact balanced our budget for a period of at least 5 years as we thought we were doing will certainly become evident as the figures roll in.

We do know that revenues have fallen off sharply, obviously, with unemployment going up, less people working, less payroll taxes, and less money being spent and people can't pay their taxes.

Every cut, whether it be a State cut or Federal cut from the level of last year, and you know what those cuts are, you vote on them every day, is a vital blow to the stability of the budget of the city of Detroit.

Mr. **Gephardt**. What was the tax increase that you passed here to get the budget balanced at the local level?

Mr. YOUNG. Yes; it would be good to note that there are those who point a finger at the cities of our Nation and accuse us of asking for bailouts, of begging.

Senator Levin has indicated that the State of Michigan gets less money in return, inclusive of the city of Detroit, from the Federal Government than any other State or city in this Nation, but over and above that, we have cut to the point—what was the question?

Mr. GEPHARDT. Tax increase.

Mr. YOUNG. I got involved.

The tax was 1 percent, and it was voted by the people of the city of Detroit, 1 percent of the income tax and that's the point I wanted to make.

We have a local income tax that prior to June 23 was 2 percent on local residents and 0.5 percent on nonresidents.

The people went to the polls, and I think that was the point I was trying to make when I got way out there; the people went to the polls in this city and voluntarily stepped forward to increase their taxes to 3 percent on residents and 1½ percent on nonresidents.

This was in a period of so-called national tax revolt. I am proud of that fact. In order to support their city and indicate their willingness to do their part and keep the safety net together, as far as we are concerned, imposed upon themselves a tax increase, and I believe that the cutbacks that we see on a Federal level is for rereward for that type of sacrifice.

Mr. GEPHARDT. Thank you, Mr. Mayor.

Chairman ROSTENKOWSKI. Mr. Guarini.

Mr. GUARINI. From what I understand, the real estate taxes, Mr. Mayor, and your other ways of raising taxes, have virtually been saturated.

Is it hard for the city to find any additional means of income?

Mr. YOUNG. You are absolutely right.

It is impossible for the city to find any means of income without authorization from the State legislature. In order to ask the people to vote to increase their income tax by 1 percent, we had to get a law enacted in Lansing authorizing that.

Mr. GUARINI. Is the fiscal integrity of the city pretty well intact right now?

Do you have any borrowing capacity over and above what you have borrowed?

Mr. YOUNG. As I indicated to you, a part of the $300 million budget-balancing package, was the issuance of bonds in the amount of $113 million, deficit bonds.

I believe, considering the circumstances, the city's credit rating, its borrowing power, and its fiscal stability is about as good as can be expected.

Mr. GUARINI Is there any other base being sought by labor, industry and government other than the automobile industry? Are efforts being made to extend your employment base, so that you wouldn't be hostage to the automobile industry?

Mr. YOUNG. Yes; diversification is a catch word in the United States today.

I do not think that it means more anywhere than it does in the city of Detroit.

As you know, when the automobile industry catches a cold, we catch pneumonia and we have been considerably sick for the last several years.

We are seeking movement to various high-technology industries and, for instance, we are looking into automation.

It is unquestionably the industry of the future, and nowhere in the Nation can you find a better pool of skilled work people, a better pool of industrial "know-how" than you will find in the city of Detroit, but we are attempting to do that too.

I can assure you that we are not sitting on the sidelines waiting for someone to rescue us from Washington.

We are actively moving and seeking to help ourselves in every direction, but we believe that this is a partnership.

We cannot do it alone, and we know that what happens to us is important to what happens to the rest of the country.

Chairman **Rostenkowski**. Mr. Matsui.

Mr. **Matsui**. Mr. Mayor, Senator Levin, and Senator Riegle, I appreciate very much the hospitality that you have shown us and also the statements that both of you made this morning.

I would, first of all, like to commend you, Mr. Mayor, for supporting that tax increase at a time when others have talked about decreasing taxes. You have showed courage and leadership to actually advocate a tax increase, and that takes a great deal of leadership in the eighties. I would like to commend you for that effort.

The question I would like to ask you deals basically with the issue of the infrastructure.

Many people now are saying that the economic program of President Reagan will destroy the infrastructure of the major cities of the United States and your statement was very relevant by citing what the people in France and Britain would do, unlike what we do in cities like New York and Detroit.

With bonding almost impossible today because of the high interest rates and many economists say that by the middle of next year the interest rates will once again go up as we move out of a recession, coupled with the lack of funds from the Federal Government and your inability through your tax base to raise funds, what do you have in mind in terms of a 5 and even a 10 or 20 year projection with respect to your streets, sewers, and curbs?

Mr. **Young**. From the strength of the economic base of the city of Detroit—and we would hope that we could hope to do that with some encouragement and support from the Federal Government in the form of an urban policy in much the same manner that there has been an urban policy over the last several years and I am referring to some well-known programs that have gone through Congress such as UDAG, EDA and others—whatever progress you see in our city today, and I think you see considerable, in spite of the hardships. It can be very directly traced from the very important Federal programs—a recognition on the part of the Congress and the previous President to the fact that it was necessary to have an urban policy and the plight of cities vital to the plight of the Nation.

Mr. **Matsui**. Have you been able to gain anything from this present administration during the past year of any urban policy to speak of?

Mr. Young. The only thing I have heard about, and I am sure you are closer to the word than I, is urban, industrial zones, and that is a metamorphosis, ill-defined, way-off proposition that has no immediacy as far as our own problems are concerned.

I am glad this committee came here today and I would like to take this opportunity to invite the President, Mr. Reagan, to visit Detroit.

He came to see us during the Republican convention. I think he ought to come back and listen to the people.

Mr. Matsui. I do recall him going before some building that was pretty well burned out, saying that if he were elected President he certainly would do something about this, and I think he said he wanted the chance to do something about this and, of course, we are still waiting.

Mr. Young. That was in New York, but you are absolutely right.

Chairman Rostenkowski. Mr. Bailey.

Mr. Bailey. Thank you, Mr. Chairman.

Mr. Mayor, I would like to comment on a few things and ask your respective opinions.

The President has, and the chairman of the committee, at a number of these hearings, has made this point before.

The President has talked about voluntarism and we heard comments yesterday from a Republican mayor concerning voluntarism and the ability to go out into the private sector and comments to the effect there is simply not enough income there to make up for the loss of services as a result of the Federal cuts.

You add that to a State tax base, Mr. Mayor, you mentioned an income tax, and I assume that you have an income tax which is probably not a graduated tax?

Mr. Young. Right.

Mr. Bailey. You also mentioned the need to supplant services that the Federal Government has taken away.

Put those two things together, it is naive on the part of this administration, and it is cruel to offer to the public a possibility that somehow there is replacement income.

Your tax base problem is in a recession, a regressive tax State structure, and most States are burdened with that kind of structure coupled with a promise or a hope that cannot deliver the things that you need.

I want to go to one more thing that you referred to. You talked about the UDAG grants, and EDA.

If there is anything that a supply-side economist or advocate ought to talk about that can generate income that can reinvest and provide jobs and aid a tax base, it would have to be those programs.

The administration has slated EDA for elimination and it is an absolute hypocrisy and one that ought to be noted.

If that is true, there simply is no future without major changes in Federal policy and administration policy.

Mr. Young. I couldn't agree with you more, Congressman.

I mentioned UDAG and EDA specifically because in my opinion, as you said, they fit so precisely into the leveraging of supply side economics, Reaganomics.

As far as the taxes are concerned, you are right. We have the most regressive and limited ability to tax in the city, much less than even the State's, and even the State's ability to tax is restricted.

We heard some talk during the last election campaign about taking away some of the services and providing for the local communities the ability to tax.

I am still waiting anxiously. I see the services going out the back door every day, but I have not seen any ability to tax.

Frankly I have no problem with the Federal Government, which is our Government, collecting the taxes, as long as they distribute equitably and according to need.

I have no problem with the fact that Michigan gets back from the Federal Government much less than any other State in the Nation because I do not believe we can expect an absolute per capita return on our tax dollar.

If some other group of people from some other State can show a greater need, that is where the money should go.

That has been the theory on which this Government has operated for a long time. All of a sudden we hear, "Vote with your feet. Let the marketplace rule and every tub stand on its own bottom," and I say it won't work.

Chairman ROSTENKOWSKI. Mr. Wolpe.

Mr. WOLPE. Thank you, Mr. Chairman. Thank you for your statement today.

Pursuing your last comment, the other part of what is happening that needs to be recognized is that that whole regional imbalance that you speak of so effectively is a consequence of conscious Government policy, not the free market.

In our budget priorities and taxing policies and energy policy, we have been accelerating that capital outflow from the Midwest, Northeast, and very recently one specific budget cut was floated in Washington by Mr. Stockman.

Now serious consideration is being given to elimination specifically of the community block grant development programs and the urban development action program.

Could you comment on the way in which those specific programs have been utilized in Detroit, and what impact the elimination of those specific programs would have on the city of Detroit?

Mr. YOUNG. The block grant program is one, as the title would imply, a community-oriented program.

It represents again a revenue sharing, a returning to the city of some of its Federal dollars that go to Washington in the form of taxes, and we have, the city has been led to expect and to make plans for this money over a long period of time.

There are various communities in the city anticipating this money.

Most of the block grant money goes into community projects. We have underway in our city now at least 50 such projects.

If all of a sudden block grants were to be cut, then these projects would stop and you would have skeletons of buildings.

It would be a death blow or a very serious blow to economic development in our city, but, more importantly, it would be a betrayal of the agreement to extend support on the part of the Congress and the President to come to compact with the people, and the question that I would raise with this body is, and that I would plead with you to recognize that the Government does have a compact with the people, that the President insists on breaking that compact, then we have only the Congress to guarantee that it is kept.

Chairman ROSTENKOWSKI. Thank you, Mr. Mayor.

Mr. Conyers.

Mr. CONYERS. Thank you, Mr. Chairman.

To the members of the Ways and Means Committee, I want to join with the mayor and our colleagues from Michigan in welcoming you to this area.

It is very important that through this testimony we educate the rest of our colleagues about what is happening in this large city in the country.

The other side of it is that what the mayor has been talking about is an economics and government lesson that has to be learned by all of our citizens so that we can begin to make the kinds of changes that are so important, so this is not some stagey hearing to emphasize partisan politics.

It is a very constructive lesson that all of us in Washington need to learn, and that the people themselves are going to have to know more about.

I am very happy that you, Mr. Chairman, have decided to come here.

Our economy in Detroit is down, but the people are not out.

We are ready to fight back, and we are going to fight back intelligently by understanding the relationship of government to what we are trying to do here in life and in the economy.

Coleman Young has been saying this for 20 years.

We have been talking about this in the labor movement, in our political life in Detroit and Michigan, so what we are trying to do is take this lesson back.

These hearings will be printed and presumably studied by every Senator and Congressman, and so I am very, very pleased that you, with our Senators, are starting off these hearings in Detroit.

Mr. YOUNG. Thank you very much, Mr. Conyers.

Chairman ROSTENKOWSKI. Mr. Hertel.

Mr. HERTEL. I, too, want to thank the committee for coming.

We talked yesterday about the fact that in some States unemployment is not such a great problem.

In Oklahoma, it is only 2 percent, and here the situation is so bad and the figures are even worse than we know because so many people are off the list and so many people have moved.

Yesterday I was in Cleveland for a hearing on the problems of the auto industry and my message to them was, it was far worse here in Detroit.

The economy has not been this bad since 1941 and yesterday was the anniversary of the beginning of the Second World War, and that is what brought us out of that last great depression.

As you have indicated, and our two Senators who have been working hard on this problem, for every 1 percent of unemployment, the Federal Treasury loses $20 billion and so as we have unemployment raising beyond reach, anything in 40 years, we see the deficit raising and the paper today indicates that the deficit is $120 billion, a great record deficit for the first time in the history of this country.

I thank you for your testimony and all of your assistance, Mr. Mayor.

Chairman ROSTENKOWSKI. Mr. Crockett.

Mr. CROCKETT. Thank you, Mr. Chairman.

I regret that I didn't get here in time to hear all of your testimony. Since I served as corporation counsel, I have a pretty good idea how he thinks and what he said. I came here directly from the airport, and I want to join the mayor and our two Senators in welcoming the House Ways and Means Committee to Detroit.

Actually, it is more than simply coming to Detroit. You are sitting in the very center of the 13th Congressional District, which I have the honor to represent in Congress.

I agree with the other members of the Michigan delegation that pointed out how appropriate it is that you would come to Detroit to discuss the impact of Reaganomics because here in our district you find a cross-section of our Nation, generally.

Within five blocks of this city you can see some of the worst poverty that you will encounter in any metropolitan area, but you are likely to get the impression that all is well right here.

We were just told this past weekend that unemployment nationally is at 8.4 percent, and most of us gasp when we hear that but let me tell you according to the latest figures from the Michigan Employment Service, the unemployment rate here in the congressional district is 20.7 percent, which is 2.5 times the national average, and double the average for the entire State of Michigan.

This district is predominantly black, Mr. Chairman, and that in large measure accounts for the large incidence of unemployment, but I don't think it would be fair to say that our high rate of unemployment is due entirely to the disease of racial prejudice that still inflicts much of our industry.

I think it also stems from the fact that technologically we have changed in this country, so that there are very few unskilled jobs left.

The day is past when we could just walk out and at least try to find some unskilled employment.

Today we need training and there are so many people who have been laid off in the automobile industry who need to be retrained in order that they are prepared to take whatever employment opportunities open up.

I am sure, Mr. Chairman, you and the members of the committee are familiar with the lead story that appeared in the Washington Post last Sunday to the effect that Mr. Stockman is recommending a further cut in the amount of money available for training programs.

Under the last Democratic administration, the budget for training and retraining was set at $8 billion.

When President Reagan took over, he recommended, and the Congress dutifully went along with his recommendation and cut that budget in two to $4 billion.

The Department of Labor itself has recommended that there will be a further cut of $3.5 billion and now the Office of Budget and Management wants it cut to $1.8 billion.

Now, those are the programs that train the underprivileged, that train the Indians, for example, and I have a sizable Indian constituency here in the 13th District, Mr. Chairman.

There is a program that also trains our elderly, and unless we can do something about these budget cuts, unless the money is available to retrain the unemployed, they are not going to make very much headway in reducing the unemployment, not just in the 13th Congressional District, but throughout the country.

Therefore, I hope, Mr. Chairman, that you and the members of the committee and my other colleagues here, when we return to Washington, we return with a determination to say to the Administration, if you are short and need more money, take it out of the Pentagon.

Chairman ROSTENKOWSKI. Mr. Mayor, on behalf of the membership of the Ways and Means Committee, I want to express our gratitude for your participation.

It has been most informative and educational and I am sure that we have learned much from your testimony that we will carry back to Washington.

Senator RIEGLE. Might I add one more comment?

Chairman ROSTENKOWSKI. Mr. Riegle.

Senator RIEGLE. What you heard today from the mayor and from others who have spoken really tells you precisely what our dilemma is, and I would like to make an urgent appeal to every member of this committee and those that are not present, that we fight now for a major correction in the Reagan economic program.

First in the area of jobs. With 5 million people working half time that want to work actual time, and 10 million people unemployed, there is an urgent requirement to get people to work.

Second, on interest rates, the interest rates at the levels they are today absolutely prevent any kind of serious economic recovery in places like Detroit and States like Michigan.

The auto industry and steel industry, other basic industries can't possibly come back and it is also true for small business, agriculture and the construction and housing industry as well.

When $30 or $40 billion worth of scarce credit is being taken off to the side for these corporate mergers and takeover fights, it is one of the reasons the interest rates are so high and so I would appeal for action there and also appeal for a change in the trade policies.

Japan, particularly, but other countries as well are taking advantage of the trade circumstances.

When 2 million cars are coming into this country from Japan and they are taking back only 20,000 of ours, it is a major factor in the unemployment in this area and it is time that we had fair trade, that people who want access to our markets have to in turn give us access to their markets and finally on the fairness question, with respect to the spending priorities, if the Stockman recommendation to eliminate the UDAG program goes forward and kills the rest of the retraining money that was spoken about, that will do more damage to Michigan than to any other State.

This State has been second of the 50 States in winning competitively UDAG money. We have had $1,200 million worth of investment take place here in the last 2 years as part of the UDAG funds.

We need to keep that going. We can't possibly catch the other industrial nations if we don't have the money and programs to retrain our people with state-of-the-art skills that they have to have if we are going to be able to earn and keep decent jobs in this society, so our appeal is for fairness and for an adjustment now and when the administration says they can't take this issue up until some time next year, that answer is not sufficient.

We need action, and we need it now and I appeal to the members of this committee to help lead the fight for those changes.

Thank you very much.

Chairman ROSTENKOWSKI. Thank you, Senator.

Mr. YOUNG. Thank you very much, Mr. Chairman.

Chairman ROSTENKOWSKI. Mrs. Henderson.

Welcome, Madam President. We are looking forward to your testimony. Before you proceed the Chair would like to note that from this point on only the Members who are seeking recognition will be recognized.

Madam President.

STATEMENT OF ERMA HENDERSON, PRESIDENT, DETROIT CITY COUNCIL

Mrs. HENDERSON. I am delighted to join with our distinguished mayor in welcoming this august body, the members of this House Ways and Means Committee, together with our own congressional delegation, to Michigan to take a look at what you have before you as a result of the Reagan economic picture.

In the words of the Budget Director, David Stockman, "Supply side economics turns out to be a slogan to mask the old trickle-down policies in which the chief objective is slashing the income tax rates of the rich."

The Kemp-Roth tax plan has also always been a Trojan horse to bring down the top rate paid by wealthy taxpayers from 70 to 50 percent.

Meanwhile, some of the problematic results which became visible as early as April is that the Reagan budget is more concerned with ideology than with either economics or reality.

This is serving to keep the rich afloat with dismantling of the social service and income maintenance programs and cutting back the role of the Federal Government for the sake of cutting without regard to the merit of what is being done.

Michigan is unique.

We have been hit with a double-barreled shotgun; that is, the declining automobile industry which has been so beautifully described by our mayor and Congress people, and the Reagan budget cuts, so consequently, Detroit has the highest unemployment rate than any other city in the United States.

What concerns me is that the military seems to be unusually healthy, and that the dope industry is continually flourishing.

When I was a child, Mr. Chairman, if a mail box was touched somewhere in this country, you could always find the criminal within a matter of a few moments.

However, what concerns me is that as we funnel money into the imaginary crisis of the world, we are at the same time closing our eyes to the most flourishing dope industry in this country, and I am worried that where there are so many unemployed people that our people will become victims of that kind of "sleep it away."

I want to urge you to look for, to look with me for a moment into the supermarkets of our country.

I want you to look as I did this morning, and hear the jingle of "Let's go Krogering—" or some other kind of advertisement, and understand what that must do to those people who are very hungry in our society who cannot afford those beautiful roses that we see up there and who are relegated to eating dog and cat food and who are sometimes so hungry and so ill-taken care of that they can't even afford the price to go out and pick up the kinds of prescriptions that have been prescribed for their illnesses.

When I first came on the council, I found that there were many, many people who were inside their homes who were fearful of getting out to get their medicine, and now today we are back to that same cycle.

Ten years later we are back to the place where people are afraid to leave their homes because they don't know what will take place.

It is fear that is gripping us, fear because we are losing that which we have spent more than a half century in fighting to gain.

How can we describe to you the pain of infant mortality in our society?

How can we describe the pain of teen pregnancy that is on the rise, or the runaway children from our homes?

How can we describe the handicapped in our country that finally were achieving a measure of dignity, and all of a sudden they are relegated to the back burner once again?

How can we describe the plight of the aged who again were part of that dignified scene?

Here in Detroit we have done almost everything we know to do with the limited dollars that we have had in order to provide for those people who could not provide for themselves only to find that that which we have done is now being taken away from them and many of our people are again hungry.

Our youth are reduced to feeling the hopelessness that comes in knowing that they cannot get assistance any longer.

One more thing about social security, Mr. Chairman, when President Reagan said that government could no longer be used for social change, his very words placed an uncertainty on the social security system and the citizens in our country are enraged.

The fact that it is lawful to mandatorily take a fixed percentage of everybody's income is enough justification that the American people ought to be entitled to some kind of assurances that they will receive the benefits of their investments, so I suggest to you today that strong legislation be forthcoming to guarantee that every citizen in America receive a return of the face value of every dime that they have been compelled by law to pay into the social security system if for any reason the social security is eliminated, dismantled, or rearranged to serve any purpose other than that for which it was intended.

Thank you, Mr. Chairman, for coming to Detroit. Detroit has much to show you as proof that Reaganomics do not work in our city.

People do not become tired of life. They become tired of injustice. Timidity, embarrassment, fear, conformity, is a reaction to injustice. At least for the very next 3 years, let's do what we can to wipe it out and save America.

Chairman ROSTENKOWSKI. Thank you very much.

The Chair would like to announce to the audience, you are guests of the House of Representatives, and any demonstration either for or against the testimony is in violation of the rules of the House.

I want to thank you for a very outstanding statement and I might make the observation that I think as long as you have got a majority of Democrats in the House of Representatives, social security will be funded.

Mrs. HENDERSON. Thank you very much.

Chairman ROSTENKOWSKI. Any questions?

Mr. BRODHEAD. Briefly, I want to make a couple of points with respect to what our very excellent and esteemed council president said here.

She made reference to drug enforcement.

The members of this committee ought to know about the news reports that came out here in this city a couple of months ago. The Federal Drug Enforcement Administration is a very active and effective force there.

It was said the officers didn't have gasoline for their cars, and had to dip in their own pockets to buy gasoline because of the across-the-board Reagan budget cuts. So their effort to fight crime is being handicapped by the Reagan budget cuts. At the same time, it was pointed out that there are many, many billions of dollars available for pork barrel projects and billions available to build huge new weapons systems while our people's basic needs aren't being met, and law enforcement can't be carried on in this community.

Chairman ROSTENKOWSKI. Thank you very much, Madam President.

Mr. Fraser, welcome. You have testified before this committee previously, and it is always an education process for us.

We appreciate your coming to give us your views.

It is nice to be in Detroit and we hope you can help us solve some problems that have been addressed by the mayor and the president of the council.

You may proceed.

STATEMENT OF DOUGLAS FRASER, PRESIDENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS (UAW), ACCOMPANIED BY WILLIAM HENDERSON, GREG YOUNGBLOOD, CLAUDE WILLIAMS, MEMBERS, UAW, AND BLAINE MARRIN, RETIRED MEMBER, UAW

Mr. **Fraser**. I appreciate this opportunity, as do my fellow workers from the UAW.

Blaine Marrin is retired.

I don't know if there is much point recounting the condition of the national economy. It is all well known to the people on this panel. We now have 8.4 percent unemployment.

In actual numbers, it is the highest number since 1939, so let me talk a little bit about the economy of Detroit in the State of Michigan and how the national economy impacts on the economy in Detroit, Mich.

Detroit is in the unfortunate position of not being diversified.

I understand your committee was in Indiana yesterday and you get some feeling in Anderson and other communities, the impact it has.

Detroit and Flint and other areas in this State are similarly situated.

We are now in the 32d month of high unemployment in the auto industry. That means 150,000 people or more indefinitely laid off at the three major companies—Ford, General Motors, and Chrysler.

I could relate to you a whole raft of statistics about the condition of the auto industry and how it is worse than any time since the depression of the thirties.

You might have read in the press, it will be the lowest level of sales since 1961.

That is 20 years, but in 1961 we had a different country. Population has increased by 21 percent since 1961, and we have 75 percent more people with drivers' licenses since 1961.

We have 78 percent more cars on the road than we did in 1961, and the real GNP of this country in 1958 dollars has grown by 124 percent, so it is a different Nation when you compare 1981 and 1961, and you are really comparing apples and oranges.

It is really much more difficult and depressing than it was in 1961.

You really have to go back to the 1930's to find a parallel period.

This is an industry in crisis, and I heard the news report this morning, and it is sad if it is true, that Congressman Blanchard got a letter from the President of the United States, or one of his aides, telling him that his request for a "summit" meeting, which I think every person in the Michigan delegation joined in, had been rejected. A spokesman said the President didn't have the time to have such a meeting at this time. I think that is sad and unfortunate.

I am not saying that there are any quick solutions to the problems confronting this industry, but it seems to me it would be helpful if the industry and ourselves, along with the appropriate officials of our Government, sat down and at least talked about them. We might try to come to some conclusion as to the direction all three parties should take.

I might say in passing that this was not a new idea.

The UAW sent a telegram to the President of the United States, after and before his inauguration, suggesting to him that the situation in the auto industry was going to deteriorate and that there should be a "summit" meeting. We followed up to make certain he received that telegram, but to this date we have had no response at all.

I would think that in terms of our government, this is a period for sympathetic, concerned and sensitive understanding of the problems of the industry.

Instead of strengthening the support programs of the people, we are the victims of brutal budget cuts which took place October 1.

Let me just touch upon a couple of them as it affects our members and the people of the State of Michigan generally.

By changing the trigger mechanism and unemployment compensation, 33,400 people in the State of Michigan had their extended benefits cut off October 1 or shortly thereafter.

TRA benefits, trade readjustment allowance benefits, and that was a contract between the labor movement and Congress. We made a commitment to adopt generally a philosophy of free trade in exchange for the TRA program.

Congress, on the other hand, said if the labor movement is willing to do this, we should give protection to those people who are adversely impacted by free trade so it would benefit the entire Nation, increase competition and the Nation would benefit. Therefore, the Nation should share in the responsibility of making a contribution to help those who are hurt by free trade.

We had 200,000 people nationally receiving TRA benefits, and 95 percent of those have been cut off.

In the State of Michigan alone 90,000 of them have been cut off.

We had 25,000 people who were on approved training programs and under the new budget, those 25,000 were cut off the training programs.

Now UAW members unfortunately must turn to other human services programs.

Let me recite for you a few areas that have impacted upon the citizens of the State of Michigan.

The reductions the Federal dollars coming into the State of Michigan in human services have been reduced by the amount of $456,900,000.

In education, the money has been reduced by $131,500,000. In employment and economic development programs, such as CETA, the State of Michigan has been reduced by $237 million.

I have been saying publicly that when all of us have a chance to look back at 1981, I am afraid that the verdict is going to be that America has really lost its compassion. It has lost its heart, and I hope only temporarily lost its way.

No one in this industry, management or ourselves, really ever thought that it would get this bad.

We thought we would reach the depths in May and June. It wouldn't get any worse than that, but it has gotten considerably worse. And I tell you, Mr. Chairman, it is not going to get any better in the foreseeable future. This industry cannot turn around unless the economy is turned around.

I used to say as interest rates came down the industry would recover, but this is no longer true because there is another compounding factor and that is the recession. Even if interest rates drop much further than I think they will—to 10 or 11 percent—you still will not have a recovery in the auto industry.

If the Federal Government and our Nation is in a recession, the auto industry has a depression because automobiles are postponable purchases, and so the situation is not going to get better in my mind, even with lower interest rates.

I look back to 1958, the last really severe depression. Interest rates were minimal, and inflation was about 2 percent but still we had a depression in the auto industry, because you had a recession in a national economy.

Lower interest rates are no longer the solution that I thought they once were.

Several things could be done immediately.

We will have position papers on these items.

We have advocated that we should have Federal unemployment benefits for 65 weeks for high unemployment areas in this country.

We should look back and examine what was done to the national and State triggers for unemployment compensation extended benefits. As I said, 34,000 people in the State of Michigan, because of the way that trigger operates, have been cut off benefits.

I believe that the economic game plan now being implemented is cruel and harsh. It is going to inflict additional pain and suffering, frustration and despair and agony on many, many American people.

It is a deliberate plan, and the economic game plan is designed to do it.

I, among others, visited with the President of the United States last Wednesday and I can tell you that there is not going to be any change in course. They believe that, despite all of the suffering and all of the agony, this is a course that this country must stay upon.

That is the course we are going to stay on and I don't think the President will change his mind. He is very determined, and only the Congress of the United States can ameliorate the suffering and change that game plan. I know how difficult that is, with the legislative branch against the executive branch, but I think a determined Congress can do it.

You need help and people of both parties to join in on this. Oftentimes I think about unemployment, and some of the people who sit in Congress. Maybe you really don't understand unemployment unless you have experienced it, or unless you have been close enough to feel it. People really don't realize the frustration of a man and a woman who is ready, willing, and anxious to work and can't find a job.

There is no greater feeling of helplessness or hopelessness than you see in such a person, and now we have them in massive numbers in our country—more than 9 million, and in our union, well over 250,000.

With that, Mr. Chairman, I would like to introduce the people with me.

We had scheduled to have with us a person by the name of Frank Dedvukaj who had 12.5 years seniority in the Lynch Road assembly plant, and has been laid off for 1½ years.

His son became ill last night and he is now in the emergency ward. He won't be with us today, but we have with us Blaine Marrin who had a long, distinguished career in one of our local unions on the west side of Detroit.

He is still active as a retiree.

We have with us Bill Henderson from the Dana plant out in Ecorse, Mich., in the western suburbs. That plant closed.

Bob had 13 years seniority and has been out of work 1½ years.

Also with us is Greg Youngblood, who worked in the Massey-Ferguson plant which produces tractors. He has been laid off since July of 1980.

We also have with us Claude Williams who worked in the Flat Rock Foundry. He was one of those who started in the hourly ranks, rose to a position in a supervisory capacity. That plant has had severe cutbacks and will eventually close. He worked for the Ford Motor Co. for 8 years, and he is now unemployed. He hasn't the slightest idea, and none of these people have the slightest idea, when and where they are going to become employed again.

They are willing and ready and anxious to work. That is the situation. This is a microcosm of what is happening to us in our union.

Chairman ROSTENKOWSKI. Thank you, Mr. Fraser, gentlemen, for joining us.

Any questions?

Mr. Gephardt.

Mr. GEPHARDT. Thank you, Mr. Fraser. It has been very helpful to us to understand what has been happening in this most important industry.

I come from St. Louis, and my area is also impacted severely because of the layoffs in the automobile industry.

Mr. Fraser, I would like to ask some questions about the length of time this has been going on and the size of layoffs that have been created.

How many people are in the automotive industry in your union in the country, how many were in the union and employed 2 years ago, and how many layoffs have come in that period of time?

Mr. FRASER. When the industry talks about indefinite layoffs, it is a figure this week of 193,000 and that understates the case.

As time goes on under our contracts, obviously people retire. Some people quit, and some are discharged. There are people who lose their seniority and what we call a time-for-time basis. If you have 2 years seniority and you are laid off for 2 years, you lose your seniority.

In Ford, there are 16,000 people who have lost their seniority. They are not counted in that 193,000, so the best figure I can give you are figures published by the Bureau of Labor Statistics for motor vehicle employment. The reduction of employment since 1979 is 275,000. About 25,000 of those are in the salaried category, not members of our union, but going through the same trauma. So in a span of 2 years, 275,000 fewer people are employed in the industry than there were.

Mr. GEPHARDT. How many total were there in the beginning?

Mr. Fraser. 780,000.

Mr. Gephardt. Almost a third of the people who worked 2 or 3 years ago are now out of the industry and unemployed?

Mr. Fraser. Unemployed.

Mr. Gephardt. Is there in place under TRA or any other program any retraining money from the Federal Government for any of these people?

Mr. Fraser. No; we had, as I indicated, 25,000 people in the retraining program when the new budget was implemented.

We lost nearly all of those people.

Mr. Gephardt. Do you have any training program in the union that you privately finance in any way?

Mr. Fraser. We have an agreement with Rockwell. We entered into a private agreement with Rockwell that if they get the B–1 contract, we are going to try to take unemployed auto workers from the concentration of unemployed in Detroit, and in Indiana where you were yesterday, and train them. They will have to tear up their roots and leave for one of two locations, Los Angeles, where the assembly plant is located for the B–1, or Columbus, Ohio, where we have a plant that makes parts for the B–1. I hate to criticize the administration, but is just so happens 4 weeks ago I got a letter from Mr. Angrisani who is Under Secretary to Secretary Donovan.

We had asked the Labor Department to finance this program. He said there wasn't money enough. He was canceling the program.

We have hopes if the B-1 program goes into effect that we can go back at them again.

As of now the Labor Department cannot, or refused, to fund a plan which Rockwell and ourselves gave them.

Chairman Rostenkowski. Mr. Williams how long have you been unemployed?

Mr. Williams. For about 3 months.

Chairman Rostenkowski. Are you married?

Mr. Williams. Yes; with two kids.

My question I have to ask the panel is this: I was always told if a person worked hard in life, you would always get ahead. What happened to the American dream here?

I was also told if you work hard enough, you can strive to any height you wanted to. What happened to that dream?

Here I am, I worked hard all my life, and I came from 12th Street, the worst part of 12th Street. I worked hard to get away from that area and worked hard for 8 years of my life. I sacrificed numerous opportunities to play pro ball, of course. That was my dream. My dream was to make a lot of money, live in a big house, have all the surroundings I ever wanted.

That dream is gone.

I was told also that nobody could ever take what you had away if you worked hard and you believed in that. What happened to that dream?

That dream might have been true prior to Reagan taking office, but it is no longer true.

As of January things began to break in my life.

Now that Reagan is catering mainly to the rich people, he has lost contact with the average working person. Where is the American dream, work hard, get ahead?

Chairman Rostenkowski. What have you done, Mr. Williams, about looking for another job?

Mr. Williams. I have sent out numerous résumés.

I have sent them all over the city.

Chairman Rostenkowski. How old are your children?

Mr. Williams. Five years old and I have one 11 months old.

I started at Ford August 3, 1973, as a highway production worker.

I wanted to get a higher position with Ford so I worked hard, overtime, 7 days, every day, 10, 12 hours a day, and finally I was promoted to supervisor.

I was in security capacity at first and I worked hard and was promoted again. I was production supervisor and was there for about 4 years.

As of July of 1979 the plant had to have a cutback. I was placed back on hourly status again. During my supervision time Ford Motor Co. saw I had potential; they sent me to school to pursue my education. I received a master's degree in industrial management.

Where is the American dream? I have worked hard and reached that plateau of educational background. I have got it all.

Chairman Rostenkowski. Is the plant closing?

Mr. Williams. It is closing. Effective December 18 it is closed.

Chairman Rostenkowski. Mr. Brodhead will inquire.

Mr. Fraser. The plant is closed because the Ford Motor Co. has three foundries—Windsor, Cleveland, and in Flat Rock. Because of reduced capacity, going from eight to four cylinders, they had to close one foundry and he got caught in that.

Mr. Brodhead. I wanted to ask Mr. Marrin, as a retiree, what has been your experience under the new economic program?

Mr. Marrin. I retired 10 years ago and at that time I had a boy that was 9 years old and I went to the social security department, and they said that I was entitled to social security for my son until he reached the age of 18 or if he went to school, he could go to school until he was 22.

My wife collected social security too and at the age of 18 they took my wife off of social security and now they are threatening to take my boy off of social security.

What they are doing, what this Government is doing is this. I was supposed to be a middle-class guy, and now they bring me down to a poor-class guy. I guess that is what this administration wants.

All of the people in the middle class that supported this administration, now they are finding out they are going to be the poorer class in this country.

I am happy that my boy was that age because if he was 2 years younger, I wouldn't have got anything because under the new rules you got to be 16 and now they can't get anything for college.

My boy has been 2 years at the Oakland Community College. He got on the dean's list every year with A-plus all the time, and I hate to see people with that, not only my boy, but other people like that ability, I hate to see them shove their education aside. This is happening in this country.

Sure maybe I will be on food stamps next year, but they are driving us to food stamps, to the poorhouse and if they don't think so, they'll find out.

Where I came from in the union, since 1937 we had approximately 500 plants that went out of business. All they had to do was come in and say I am buying this plant.

Example, Commonwealth Brass, where it was a 40 or 50 year plant in operation. Essex Wire came in and purchased it. I was president of the local then, and I got a letter that said, look, we are sorry but we have got to cancel your pension fund.

This was 15 years ago. They said that anybody under 50 years old that has been working here 25 years, had no pension. Anybody above 50, we will pay them but we are canceling all their money as far as Blue Cross and Blue Shield.

We got into the Detroit Tooling Association in World War II. It was the best area to get things done in a hurry.

We had 160-odd plants in this area, tool, diemakers, and machinists, best of anybody in the country.

They are all out of business now.

I thought maybe when this administration got in, something would be done. This year we had 20 or 25 go out of business. Now we have the people that are saying to me, look I get my pension.

They think, well, we have a lot of small plants, and a lot of these pensions are cut to the minimum and the reason they are cut is because of Blue Cross and Blue Shield.

We had a guy that worked at Beull Die on Michigan Avenue getting $205 a month pension. His pension was cut down to $68. Now, isn't that something? This is what is happening, and a lot of our people don't understand it. They don't understand what is happening.

Conglomerates come in, close them all up. This is what is happening.

Mr. **Brodhead**. Thank you very much.

Mr. **Guarini**. Is there any retraining programs that you have entered into in order to be able to get the necessary skills or talents for another type of job? Have there been any programs offered to you or any help in that direction, sir?

Mr. **Henderson**. No.

Mr. **Guarini**. I would like to ask Mr. Fraser—do you think Detroit makes a good case for a Reconstruction Finance Corporation which helped us immeasurably in the thirties and forties?

Mr. **Fraser**. I agree with the principle, the concept. I was hopeful in these difficult economic times that our Government would once again embark upon a proven program, not a great experiment; the Reconstruction Finance Corporation can work, and it would do wonders for the city of Detroit.

Mr. **Guarini**. Last, I might ask, inasmuch as we have a $200 billion defense budget, a tremendous amount of money going into the military-industrial complex, whether or not any of that money really rubs off on Detroit.

It is my understanding that 70 percent of the money is going to the Sun Belt States.

Is there any advantage Detroit gains from the large military budget we have today?

Mr. **Fraser**. Very, very slight, Congressman.

Chrysler has a tank arsenal here, but I can't think of any large projects.

There might be a couple of small contracts.

It is minimal. I found the Atlantic Monthly article extremely interesting. As I recall, Mr. Stockman said he was looking at the defense budget. He said it could be cut $10, $20, $30, billion.

Mr. **Guarini**. I know. Coming from Detroit, or coming from Michigan, he should be very knowledgeable.

Mr. **Fraser**. He is extremely knowledgeable on that.

Chairman **Rostenkowski**. Mr. Matsui?

Mr. **Matsui**. Mr. Fraser, during the tax cut debate before the Ways and Means Committee, a number of people testified regarding how we could help the sick industries, including the automobile industry.

Mr. Bailey offered a proposal that the Ways and Means Committee ultimately adopted which was, in my opinion, a very proper approach to help out the auto industry in the United States, as well as steel and others. The administration proposal prevailed however.

They had a provision in their bill which you are familiar with, the leasing provision which allows the sale of tax credits and depreciation schedules.

The administration prediction was that $26 billion would be lost in revenues over a 5-year period. It appears it would probably be closer to $60 or $70 now because IBM and other corporations have gotten into the act.

We are looking at the possibility now of revising the leasing provision. I know on the Senate side many of those Senators that voted for the provision are having second thoughts.

As a member of the board of directors of Chrysler, and also in the labor movement, could you state an opinion on how well the lease provision is helping the auto industry? Do you see any potential for help for the auto industry by these leasing provisions?

Mr. **Fraser**. It is sort of a devious way to do it. That portion of the bill went through almost without notice.

Chrysler wanted to sell their tax credits to General Electric. General Electric didn't want to do it because they were unsure what would happen to those tax credits if Chrysler went bankrupt so GE went to the Treasury Department and got a change in the interpretation on what happens in a bankruptcy case. Chrysler then sold the tax credits to General Electric for some $24 or $25 million.

I don't think that is an orderly way of doing it or an honest, upfront way of helping industry. People are going to benefit who shouldn't benefit.

There are so many industries that are going to gain from this that don't need any help at all. It is a bonanza for those industries.

I must say that the auto industry has a great need for additional capital for a variety of reasons that you are familiar with. Because of the lack of capital in the auto industry and this goes for General Motors and Ford as well as Chrysler, they are cutting back on future product planning.

If they have a model that was going to be introduced in 1983, it is pushed back to 1985, 1984, 1983. What happens in the longer term is that it will inhibit our ability to compete with the Japanese and Europeans because we are delaying the introduction of new, competitive products. So there is a need for capital in the auto industry, but I think we should do it in a more forthright, honest manner. Congress can do it in a way that does not represent a bonanza for those companies that don't need it.

Chairman **Rostenkowski**. Mr. Bailey?

Mr. **Bailey**. Mr. Fraser, a quick reference to Mr. Matsui's concept, he mentioned that amendment that myself and Bill Brodhead and others worked on; we are very much afraid we are going to lose the baby with the bath water on that issue because you really put your finger on something that goes to the core of what those gentlemen are talking about.

People that don't represent capital intensive, long-term capital investment intensive industries cannot understand why skilled labor positions that drive for wages and benefits are done to protect people.

Most of the people that criticize union efforts do not understand that the very free market forces that cause that sickly unemployment problem which you try to protect yourselves against is at the root of the difficulty.

The trouble you have with workers in the union is you become experienced with sickly unemployment problems.

I know because I went to school up here and worked summers in the automobile factory.

You make an investment in a home and look out and say, gee, I am going to be unemployed for a while. You know that. The union learns to work around that, and you get to this investment problem which is compounded by a recession that is actually a depression in the industry and people start losing everything because you don't have benefit structures in the Government or the union to protect against the losses that individuals have to go through.

I wonder if the workers here would comment on some of the things that are happening because of the difficulties, children in school, homes to be paid for, bills to be paid, and somebody expects you to vote with your feet.

You can't walk away from debt. You have got a burden.

Could you comment on what is happening to some of your people in different locals?

Mr. **Youngblood**. Me and my father bought a house together, and since I have been laid off, I lost my half of it. I am still living there, but the house is no longer mine. I am losing my truck, and everything I own slowly but surely, and you know, Mr. Reagan does not care.

I had to fight for 2 months to get in the hospital to have an operation just to get a job, and by the time I finally got the operation okayed the job was gone.

The doctors in the hospital still have not got paid. I had to fight for 2 months to get it approved, and they denied it after I was in the hospital already.

I am not complaining much. I served my country well, but Mr. Reagan is cutting my throat, and I don't like it.

We need a strong military. I have seen what communism can do on a first-hand basis. I was in Vietnam.

Mr. **Brodhead**. Mr. Youngblood, you say you served in Vietnam?

Mr. **Youngblood**. Yes, sir, I was there 10 months and 25 days.

Mr. **Brodhead**. Did you sustain an injury?

Mr. **Youngblood**. I got a piece of shrapnel above my left eye. I received it in the Republic of Cambodia, not in Vietnam, June 5, 1970.

Chairman **Rostenkowski**. Mr. Wolpe.

Mr. **Wolpe**. One of the things that has impressed me over the last few years here in Michigan is the amount of energy that we have wasted in very destructive confrontations, labor and management.

Each looking at the other, a lot of name throwing and between private sector and Government.

Do you see any movement at all in terms of a general recognition that we are all in the same kind of economic boat, any effort to get away from what has characterized the Michigan situation?

Mr. **Fraser**. I wanted to pick up for a couple of seconds the thrust of Congressman Bailey's question.

Under our agreements, which everybody says are so costly, when the worker is laid off, he gets his surgical and hospital benefits paid for 1 year. We insulate them for one year.

Mr. Henderson, Mr. Youngblood, and Mr. Williams shortly will run out of those benefits. Then they will have to depend upon human services.

I have a theory, Congressman Wolpe, that adversity results in people looking at things differently.

I think the auto companies have a broader view of life and society and workers than they once did.

The auto industry has a reputation, and deserved, of being a pretty arrogant group of managers. They had all of the answers to all of the problems.

If there is one thing that has happened, it is that adversity has humbled them. They have seen things as they have never seen them before.

On the other side, I think our leadership views the problems in the industry with a little better understanding than we did before. So if there is any benefit from this, and you have to look hard to find a benefit, it is the fact that adversity does cause one to examine his or her positions.

They have to be more flexible and not so doctrinaire in their positions.

Mr. **Wolpe**. I thank you, and picking up also on your comment, we talk an awful lot about the numbers that are involved and our staggering deficit, all of these have it; it is the human piece that so frequently gets missed.

I want to thank you and the others for helping to lay that out in a way that can be felt by all of us and hopefully by the administration.

Chairman **Rostenkowski**. Mr. Hertel.

Mr. **Hertel**. Last Labor Day during the election, I recall the President coming to Detroit and to Flint, Mich., talking about the auto industry's problems, and saying if he was President he would do something about those problems.

Today we understand that our request just for an auto summit to talk about those problems has been rejected, and you tell us when you get with him last week he had no ideas to offer, no hope to offer at all.

Mr. **Fraser**. What he said last week, and none of this is confidential; I think it is a position he has publicly stated:

He just said to us in the labor movement that we disagree philosophically about the role of Government and the economic course that we are on. He said to us, as he has said publicly, give the program a chance. Let it work. That is what I am afraid of, incidentally. It is working too well.

We are going to reach 9-percent unemployment in no time, maybe in the next month or two. But this is a course that the President is on and, as of last Wednesday, he was going to stay on that course.

When I left there, I was saddened, really.

Chairman **Rostenkowski**. Did he give you any indication as to when he felt it was going to turn around?

Mr. **Fraser**. He indicated that he thought the middle of next year we would see things turning around. I think that is highly optimistic.

Mr. **Hertel**. I am a freshman Congressman. I thank the chairman for including me today.

People ask me how I like my job and I say, I am glad to have a job.

Every day the news gets worse. We have not had a good day this year and it gets worse this week as we talk.

The most incredible statement that I heard from the administration was people should vote with their feet; that they should move.

With the problems that you face now and the unemployment that you have suffered already, is it at all possible for you to move?

It seems to me younger workers are usually laid off first and don't have the assets to move. Older people have a problem of seeking a job in another State and trying to start anew when they are past the age of 50.

Mr. **Henderson**. I really don't want to move. If I can get around it, I have a little 9-year old in school and I really don't want to uproot but if that is what it takes, I don't know, I might have to.

Mr. **Hertel**. Do you own your house now?

Mr. **Henderson**. Yes.

Mr. **Hertel**. Could you sell it today?

Mr. **Henderson**. I have several friends that put their houses up and they are still on the market, and they can't sell them.

Mr. **Youngblood**. A buddy of mine went to Texas and California.

They want him to pay his way. He has three kids, and he has to sell everything he owns up here, they will give him a job, but he has to pay his way down there.

He has been laid off even longer than me, how is he going to do that?

Chairman **Rostenkowski**. What do you see as the situation for the three auto companies now?

I am not sure how bad it is.

Mr. **Fraser**. It is going to be a struggle, and I can't see any turnaround until the economy gets better. Even if there is an improvement in the economy, there are no hopes of seeing an upturn before the fourth quarter of next year.

There has to be a fundamental change in our economy for the better before the industry makes a recovery, and this industry is dependent upon an economic recovery. It cannot possibly turn around without a substantial change in the economy of the country.

Mr. **Hertel**. Are Chrysler and Ford in danger of going under?

Mr. **Fraser**. Chrysler cannot survive in this kind of market for a long time. They are getting a slightly larger slice of a much smaller pie, and they can't survive in the long run in this kind of economic climate. Ford would also be in jeopardy.

GM is sort of insulated, but you are going to see a weakened General Motors Corp.

There is some doubt about building a new plant in Representative Gephardt's area and they are looking at five different plants that they were going to build. These are plants replacing older plants to increase our productivity and better enable us to compete with the Japanese. Now we have to scrap those plants and that will put us at a further competitive disadvantage with the Japanese. The industry is in shambles, and I don't see it improving, unless there is a substantial improvement in the economy.

Mr. **Hertel**. Let me just say that, I don't think that there is a great deal of patience clearly left and certainly not in the Congress.

We clearly have to have action and we will have some action and initiatives in the Congress.

Chairman **Rostenkowski**. If there are no further questions?

Oh, Mr. Crockett.

Mr. **Crockett**. I have one question for Mr. Fraser.

Each of you have made some reference to the exorbitant amount of money that we have put into the military budget.

Very frequently, those of us in Congress feel we are between a rock and a hard place. You vote against the military budget, and you are regarded as being unpatriotic.

If you vote for it, then you know that the difference has to be made up by cutting somewhere and normally it means cutting into social programs.

The President has said within the next 5 years he wants to spend $1½ trillion just on the military.

I asked my little grandson, who is very competent in math, how much does that mean we will have to spend each day and he got his little computer out, he said, that means we will be spending $1 billion for every workday for the next 5 years, and then he paused a while, and he said, we are a very rich country, but can we do all of that and take care of poor people also?

That is the question I put to you.

Mr. **Fraser**. Congressman Crockett is my congressman. I think the auto industry first needs your grandson to figure these things out.

I think it is sad, and sad for several reasons, and I have a view about defense.

I happen to believe in a strong national defense, but I think you can have a strong national defense at a much lesser cost.

I thought it was $206 or $208 billion, and I see that cost escalating.

I think some of the weapons we are putting in place are not needed. More importantly, I think a tragic mistake was made last year when we didn't ratify SALT II. not because SALT II was that critical, but it was a continuation of a process. After SALT II and SALT III and SALT IV, maybe, just maybe, in this world we would get some sanity.

The Soviet Union needs resources more than we do. There is this horrible, horrible waste in the world because we are making the weapons of war rather than making the instruments of peace. It is sad.

You are talking about Congress, and Congress has the pressures of the budget. Think how those pressures would disappear if you had $208 billion to appropriate.

I think the whole course of events is very, very sad. This is not a forum to be critical of the administration, but I believe we have taken a step backward in terms of trying to get some rational approach to armaments, not only in this country, but throughout the world. Our only hope is that pressures will come from the other democracies, particularly ones in Europe, on our Government to start the negotiating process going once more. That is our only hope.

The current situation is completely wasteful and irrational, and it does great damage to the economy of this Nation.

Mr. Crockett. Thank you, Mr. Fraser, and Mr. Chairman.

Chairman Rostenkowski. Thank you, gentlemen. I am sorry we have had to share these frustrations, but maybe the gentleman can be the conduit to try to help solve the problems that have made your life in recent years so unpleasant.

Welcome to the committee, Representative Hollister.

You will summarize the statement of Mr. Crim. Proceed to your testimony.

STATEMENT OF DAVID C. HOLLISTER, STATE REPRESENTATIVE, 57TH DISTRICT, MICHIGAN HOUSE OF REPRESENTATIVES

Mr. Hollister. The Speaker was unable to be here. There is a workers compensation crisis, a tax crisis and a budget crisis that required he be in Lansing today, and therefore he has asked me to bring you up to date on the impact of the Federal budget cuts on Michigan.

Before I highlight and show how these Federal cuts impact us in the Michigan Legislature, let me please introduce myself. I'm Representative David Hollister. Early this year I was asked by the Speaker to bird-dog all the Federal cuts, and I have testified before subcommittees of Congress on the Federal cuts and have been the lead person for Speaker Crim, as to our response to Federal cuts.

I also serve on our Appropriations Committee, and on the Mental Health Subcommittee and chair the Social Services Subcommittee. I also serve on the subcommittees of State Police, Corrections Committee, and data processing. I have seen most of the human services aspects of these cut.

It is important to keep in mind that Michigan has two crises going at the same time. First is the collapse of the Michigan budget that is due primarily to stagnant automobile industry; consequently this has led Michigan to be the State with the highest unemployment rate, highest welfare caseloads, and housing starts are off 61 percent.

We are in a total slump and we have had to cut our budget by $1 billion. Michigan understands budget cutting. We have cut our budget by $1 billion in the last 18 months.

We have laid off 10,000 employees, so we understand what it means to cut. At the same time that we have been making those cuts because of our own crisis, we have had to deal with the Federal budget cuts that have come on top of that. I would like to very quickly show you the conditions on that the Michigan Legislature is facing in trying to deal with the Reagan cuts. I put this chart together for the Lansing School Board October 1, which highlights the five major crisis facing the legislature and since that time we have added a new sixth crisis.

To give you an example of how desperate the situation is, in the last 18 months we have cut $1 billion, laid off 10,000 employees, and ended 7,000 full-time positions; and on the last day of the fiscal year, which was September 30, we had to accept a Governor's executive order and cut an additional $135 million.

We did that by cutting colleges, community colleges, on our K-12 school system. We simply discounted their October school-aid payment and reimbursed them 96 cents for every dollar we owed them. This makes for very bad planning and upsets local officials.

We have five school districts that are on the verge of collapse right now, and we expect at least one or two major districts to be closed in January.

That was September 30 and the end of our fiscal year; a year of severe stress for the legislature and Governor as we struggled to balance our budget.

On October 1, the Reagan I cuts began to be implemented.

In Michigan, starting October 1, 35,000 people started losing ADC benefits. That is how many it means here: 35,000 people losing benefits; 25,000 people started losing food stamps; 50,000 people started losing TRA and extended benefits and unemployment benefits; and 18,000 people lost CETA jobs, starting October 1.

There is not one dime in the Michigan budget to pick up any of them.

Our budget assumes that those people either move in with their families or they leave the State because there is no money in the Michigan budget to pick up for those people that have been lost in the Federal cuts.

Starting October 1, the block grant program went into effect, and the biggest block grant for Michigan is social services, title 20.

We have used the title 20 money to develop an alternative network to keep people out of institutions and to keep families together.

In Michigan we spend less of our medicaid money on long-term care—nursing homes—than any other State because we have Meals on Wheels, chore services, and other alternative programs.

The national average if 45 cents of every dollar, and we spend 33 cents out of every medicaid dollar.

The October 1 Federal cuts meant that we lost $30 million, our alternative network. Runaway programs for kids, Meals on Wheels, spouse abuse programs, and so forth, those programs have been cut by 20 and 25 percent and the alternative network has been shrunk.

I have a breakout in the attachments that show how the title XX cuts have impacted seniors, children, day care, and how they have impacted up and down the system.

I had a young lady come into my office the other day and she was a welfare mother who had been deserted by her husband and left with four children, she was going to community college in prelaw, was an honor student and had a part-time job; because she had a job she stood to lose all of her benefits.

Her grant levels were cut by 10 percent, and her day care has been taken away and her food stamps are being reduced.

Her student loan is gone, and she is sending kids to school where they are paying more for less and less of a hot lunch.

We talk about the work ethic, we talk about encouraging people to work, but what are we really doing here?

Title XX alone was $30 million loss for Michigan and we have shrunk that network and we already see people popping up at nursing homes. We will end up paying more in the long run anyway.

These are not sensible cuts. Our health care block grant is in disarray.

The President promised us quick action on block grants. I attended the Chicago regional meeting, where administration officials assured us it was going to be an expedited process, yet even now we do not have the rules or guidelines on the health block grant.

In another area Congress passed the energy program. The energy assistance program at last year's level for Michigan was $100 million. The House passed a bill authorizing $100 million, the Senate passed it at $90 million, however, we are now being reimbursed at $77 million, a 25-percent cut.

They are overriding the will of Congress as they are implementing this energy program. In Michigan we have 25 percent less Federal energy money and in Michigan we are talking about energy bills going up 50 percent this month.

That is what we are looking at in Michigan, and it is scary.

What I have just explained involves Reagan round one; and those cuts to Michigan were a loss of $685 million; $685 million purchasing power taken from the State of Michigan and redistributed some place else, probably in the South in the form of higher military expenditures.

On the last day of the fiscal year we cut $135 million, the Reagan round 1 cuts started October 1, and meant a loss of $685 million, and then October 15 we were faced with another Executive order and we have cut the Michigan budget by an additional $270 million. By the end of this year we will have cut our budget by 20 percent, 20 percent will be gone from the Michigan budget.

We are also looking at major losses in round II.

Our most rapidly growing area of our welfare budget is unemployed auto workers, ADC-U.

Our average caseload for ADC-U will run 5 to 7,000, and today we are over 37,000 cases.

It is a more expensive caseload because, instead of a single parent with two kids, it is an intact family, husband and wife together, so the caseload is bigger. This is our most rapidly growing area, and Reagan has proposed in round II to limit assistance to these families to 4 months. After 4 months there would be no Federal assistance.

I urge you to reject a proposal that would bypass men like these who worked 13, 15 years, and have seniority, and the work ethic is part of their lifestyle

We cannot allow that to happen and that is what is happening here.

Michigan has been hurt worse by these cuts than any other State. We are in the top five States in sending money to Washington because, when the people are working they are making good wages, but we are No. 50 in getting money back.

We lost 18,000 CETA workers, and we have the highest unemployment rate in the country. Does that make any sense to you?

We have a matching formula in Michigan that we match our Federal money 50-50.

In the South those States put up 40 percent, some of them less than that.

If we took the average, 39 percent, Michigan would have saved $244 million in this year alone if our reimbursement formula were the same as those Southern and Western States.

TRA benefits, unemployment benefits, 50,000 people cut off in Michigan and we have the highest unemployment rate in the country.

UDAG grants: If you were fortunate enough to come to Lansing, my district, you would see a revitalized riverfront. In Grand Rapids, we built a new museum to honor one of our former Presidents. Much of that money was stimulated by urban development grants; that is being pulled back.

The military: 80 percent of the domestic military money goes South and it will not help us. Michigan is desperately hurt by these cuts and it is impacting every single individual.

Mr. Chairman, there are solutions, and one of the most important things that you can do is to understand the consequences of these cuts and be honest about it. If the Federal Government is getting out of the human service area, be honest about it.

Let's not do any more Trojan horses. Be up front.

The message from Washington now is, "we don't care." Michigan cares and we are going to struggle the best we can, but we are at the top of our tax capacity.

You have tax effort and tax capacity.

We have a tax revolt in this State, and there is no way we can raise money to make up for those losses. Every cut you make in Michigan is going to be translated to the local, county, township level, ultimately people will be hurt more.

You can make the cuts countercyclical. I would point out that the Federal cuts are not going to hurt Alaska as much. They have just given everybody in their States $50 for every year that they have lived there. It will not hurt that State like it hurts us, or Texas, who has just repealed their sales tax.

Make those cuts countercyclical as we did that in the medicaid budgets. The medicaid formula developed by Congressman Dingell was sensitive to unemployment levels and fraud and abuse activities that we have undertaken. Target your cuts, make them selective and don't punish the Midwest and the Northeast.

Close those tax loopholes, and we will have money to spend.

Use the same standard of waste and fraud on the military that you are using on social services.

I want to talk about the private sector for a minute because the Urban Institute estimates that the private sector giving must increase 60 percent to hold even with the Federal cuts.

Now, my community just had a successful United Way drive and we just barely reached our goal and that target was set in April before the Federal cuts, so every community in this State that has achieved its goal is behind by 60 percent.

The private sector must come forward en masse, and that means my private giving, churches, they must increase 60 percent or people in Michigan will not be cared for.

Most of our United Way drives have not been as successful. We are seeing losses there.

We are organizing a food bank because we are fearful that people will starve in Lansing. I was at the White House Conference on Aging last week and it was reported that more people will die from cold than will die from all the tornadoes, all the floods and hurricanes and natural disasters in this country this year.

In Lansing we are organizing to stop shutoffs because utility rates are going up 50 percent in this State this year.

Blue Cross, their rates went up yesterday 17 percent and the seniors are being hurt. Women and children are being hurt. Auto workers are being hurt.

Nobody, nobody has escaped in Michigan except the very wealthy.

We just commissioned a study of the top economists in this State, and Dr. Brazer from the University of Michigan came before the legislature and told us, "If you are going to diversify this economy and bring industry to the State, you cannot dismantle the human services systems," because companies that move in and require industrial technology look for good universities, good human service systems and for the arts and culture. If we dismantle that system, which we are in the process of doing in Michigan, we were told that we will not be able to attract the industry that we are trying to attract in our strategy of economic diversification.

We are cutting the nose off that will bring the long-term economic diversification.

Finally, Mr. Chairman, members of this committee, someone in Washington has got to care.

My biggest fear, is that Washington will stop caring and people will lose hope. I am an old school teacher, I taught history and government, and I have concluded that the one thread that holds it all together is hope and trust. Trust of government, trust that public officials, like yourselves, will do the right thing and will listen to the facts and provide solutions. People here today are coming to you looking for hope, because, if you turn your back like the President appears to have turned his back, people will turn to despair. When they turn to despair, as has happened in this city in the recent past, none of us will escape the consequences.

Thank you.

Chairman ROSTENKOWSKI. Thank you, Representative.

The committee will be in order.

The Chair has cautioned our guests that it is in extreme violation of the House rules. Please conform with the rules. There are no demonstrations either for or against any remarks made by the witnesses.

Mr. HOLLISTER. I have support testimony and the Speaker's testimony.

Chairman ROSTENKOWSKI. Without objection, the statement of the Speaker will be included in the record.

Mr. GIBBONS. Let me ask you something about Michigan's utility rate. You referred to that twice. You said their rates would go up 50 percent this year.

Mr. HOLLISTER. Last year, Ohio and some of the surrounding States had disruptions, major disruptions of their energy supply, and major utilities in this State, wanting to avoid that, entered into a long-term contract with Middle East oil countries at a higher rate.

The agreement was to get a 20-year lock-in and for that they were willing to pay a higher rate.

That new rate is considered a routine cost of doing business and was not reviewed by our Public Service Commission. It will automatically be passed on as soon as that Algerian oil begins to flow.

It was a conscious decision made to try and keep a long-term, 20-year energy supply.

Mr. GIBBONS. It is part of a foreign oil arrangement?

Mr. HOLLISTER. Not the State of Michigan, but some of the major utilities.

Mr. GIBBONS. The law apparently allowed it.

Mr. HOLLISTER. Yes, it was a routine cost of doing business and did not require a review by the Public Service Commission.

Mr. GIBBONS. I hope that works out to be OK.

Thank you, sir.

Chairman ROSTENKOWSKI. Any questions?

Mr. Conable.

Mr. CONABLE. Thank you, Mr. Chairman. I apologize for not having gotten here earlier. My flight out of Buffalo was canceled.

I am a little curious about your comments about block grants. You understand that block grants don't cause the cuts.

It is the other way around. Cutbacks, many people feel, are necessary to some degree, and we are trying to preserve some of the value by reducing the administrative costs that are involved in categorical grants to some degree.

I am also curious to know about the block grants in the health field: to what extent are they the result of Congress failure to complete the continuing resolution which applied to the current fiscal year?

At this time the administration does not know what the level of spending is going to be. Do you have any knowledge about that?

Mr. **Hollister**. First, I was in Atlanta when the President made his New Federalism presentation.

His statement was clear, over 4 years the Federal Government will get out of the block grant business, so the initial 25-percent cut was phase I of a 4-year phaseout.

He said it up and down the line. I supported block grants originally. however, there is a difference between supporting a block grant concept which could bring some streamlining and efficiency and abandonment of programs, and that is what we are seeing.

This is a clearly defined strategy to get the Federal Government out of the business. You have to separate the issues. Do block grants make sense as far as local accountability making some savings; yes.

When we cut our budget the first time 2 years ago, we cut 5 percent and really no major hurt and cut it again mid-year, another 4 or 5 percent; we began to see some hurt.

We are now in the third year of cuts. When you bring block grants into Michigan, we don't have the fat. The fat is just not there.

Mr. **Conable**. A block grant is not a cut. The cuts may accompany the grants.

Mr. **Hollister**. Title XX we got $30 million less. Is that not a cut?

Mr. **Conable**. That has been capped for some time.

Mr. **Hollister**. We got $30 million less in our cap. In energy last year we had around $100 million. We are getting $77 million now. Is that not a cut?

It is a real cut for people out there.

Mr. **Conable**. The only point I wanted to make was that cuts have occurred and there is some effort to minimize the effects by block granting it and providing, through reduced regulation, some opportunities for the States to assign priorities among the programs.

Mr. **Hollister**. We have been doing that very well but the deregulation has not been substantial and I don't perceive the waste out there, particularly when you talk about the kinds of cuts, chore services, visiting nurses.

Mr. **Conable**. I quite agree, they are desirable programs.

I am trying to find out primarily what the difficulty was in the disarray in the block grants.

Mr. **Hollister**. In energy they have been very cooperative; they tried to be cooperative. You had last year's level which was the continuing resolution, and then you had the Senate recommending $90 million for Michigan, which we thought might be the compromise position and tried to plan for $90 million but the President's original recommendation was $77 million for Michigan.

Even though you were at this level, we are being reimbursed right now today at a $77 million level, so although Congress has acted in good faith, some of the administration are operating in good faith, but the President has given instructions to go at the lower levels.

We are getting less money.

Mr. **Conable**. He does not have impoundment powers.

Mr. **Hollister**. It appears that he does have them.

Mr. **Brodhead**. Very quickly, I would like to thank you very much for your statement.

Mr. Conable mentioned that the inability of the Senate to pass appropriations bills is giving us a problem. I think he was asking, and I would like to follow up, can you expound a little bit on the planning problems that it is causing you?

You mentioned the lack of tax base, and some of the planning problems you are having with trying to raise money in the private sector and, second, you alluded to counterproductive cuts in welfare programs.

Specifically are the cuts going to force people on the welfare rolls who are supplementing their benefits with wages to quit their jobs. With the cuts, it will not pay them to work.

They lose medicare coverage?

Mr. **Hollister**. Planning has been abandoned. We are not able to plan and our basic planning is to figure we are going to lose 10 to 20 percent, and that is what we have been losing.

Prevention is gone; those programs have been ended. Things that you plan to develop that are cost effective over a period of time, but are hard to measure, those programs are gone.

Right now Michigan is into triage.

Where will we cut if we cut this much?

We had planned on $100 million for energy, low energy assistance. We did our planning at $77 million, and we simply took the President's original recommendation and figured he was going to win, so we have been planning at the very lowest grimace level, and now we are talking triage.

We have 97 colleges and universities in Michigan and we are talking about closing them. No department has escaped.

I list by department the layoffs.

Chairman **Rostenkowski**. Thank you.

The Chair is going to exercise the Chair's privilege of inviting the president pro tem of the Detroit City Council, Mrs. Mahaffey, to give testimony.

[Recess.]

Chairman **Rostenkowski**. The committee will be in order.

Welcome. Proceed, please.

STATEMENT OF MARYANN MAHAFFEY, PRESIDENT PRO TEM, DETROIT CITY COUNCIL

Ms. **Mahaffey**. I am grateful to you for permitting me this opportunity to address you.

I am Maryann Mahaffey, president pro tem of the city council. I chair the Better Health Care Coalition and I am chairperson of the Michigan Nutrition Commission, appointed by the Governor and established by executive order.

I also am former Deputy Chairperson of the White House Conference on Families.

The U.S. Constitution states that Government has the responsibility to promote the general welfare. I believe our Founding Fathers were clear that Government has a responsibility to create equality and social justice. This administration is creating inequality and social injustice.

The safety net programs, those protecting the truly needy, are recognizable mostly by their gaps. I want to give a few examples and document how these cuts are harming not only individuals, but in turn are harming cities.

For example, we have a woman in this town who, with her daughter and her two grandchildren, have recently been flooded out of their home. One child is 4, another 3. The 3-year-old has heart problems and was hospitalized. She also suffered a brain stroke which left her speechless and unable to walk. During the time of her hospitalization, her grandmother became ill and was hospitalized also.

They have a visiting nurse, and the handicapped child is transported by bus to the Oakman School for Crippled Children, and is receiving speech and physical therapy. The other grandchild is attending a Head Start program 4 days a week. This family has managed to hang together because of those services, yet it is those very services that are currently being threatened and whittled away.

Another example, Mrs. White, has three teenaged children and had been on welfare for a number of years. She finally had the opportunity, through CETA, to work and accumulate experience to help her qualify for future jobs. Ten months later the rug was pulled from under her. Her chance at a real future was removed when CETA cuts came into effect. Mrs. White had felt for the first time in a long time a sense of hope in realizing her potential as a worker, mother and human being. Now she is forced back on welfare with a decreased grant level due to Federal and State cuts, and inflationary prices for goods and services.

Mrs. Blue worked at General Motors Corp. for 2½ years. After she was laid off, she began collecting TRA benefits and eventually enrolled in an MESC-approved training program. The recent cuts in TRA benefits for those in school have rendered Mrs. Blue and her two children indigent. She has been forced to go on welfare and can no longer maintain the comfortable, albeit modest lifestyle to which she and her children were accustomed. She had to sell her car, and high rent and utility bills have forced her to move to a small apartment in a neighborhood in which she feels unsafe. Due to cuts in the school lunch program, she has to spend more money for her children's lunches. Her medicaid coverage is considerably less comprehensive than the Blue Cross/Blue Shield coverage she had while working at GM. Thus, she spends more out of pocket for health care.

Mrs. Blue was gainfully employed and self-reliant. Through no fault of her own, her independence was snatched away from her. She turned to the Federal Government through TRA for assistance in going to school so that she could again become gainfully employed and self-reliant. Now, not only has private industry failed her, but the Federal Government has thwarted her attempt to stand on her own two feet.

The city of Detroit is already reeling from unemployment. We have lost 3,000 CETA workers; 16,000 will be laid off by 1982.

TRA benefits, which have been sustaining thousands of laid-off autoworkers, have been drastically reduced.

Detroit bus service probably will be reduced during peak hours and eliminated for all other hours; but fares will rise over 150 percent, putting public transportation out of the reach of the city's poor.

Our sewage rates will have to be raised 40 to 45 percent with the cuts in subsidies for water cleanup—we are currently under court order to clean up our water, and are on target. If those subsidies are eliminated, we can have a 116-percent increase in our sewage rate. We would either have to settle for dirty water which would be unhealthy, or come up with the money for individuals to pay those costs. Many individuals cannot.

Within the last 6 months, three health centers in Detroit providing maternal and child health services to over 11,000 Detroit residents have been forced to close for lack of funds. The remaining centers will have to compete with other health programs for a piece of the smaller health services block grant. Two additional health centers will be forced to close and 5,000 to 8,000 patients, the majority of whom are children, and all of whom are truly needy, will be denied services.

Right now it takes 3 months to get an appointment for a physical at a public health clinic in Detroit. It is often necessary for a job.

Blue Cross/Blue Shield continually raises their rates for small groups and individual policyholders, often those with the lowest wages and the least protection.

Detroit had a special committee to try to figure out what to do for people who are not covered by medicaid and have no other health care benefits. We have tried to locate doctors who would volunteer some services. Few volunteered.

We also find that people in those circumstances end up going to emergency rooms which are far more expensive. They go to the emergency room because they must be served. Without an emergency, they just simply have to wait and wait and wait and pray.

A side effect of unemployment is depression, leading to more and more suicides. Our suicide prevention line, staffed mainly by volunteers, was closed down a year or more ago for lack of funds.

Legal services have been drastically cut, leaving no legally trained advocates to assure protection of the rights of the poor.

Wayne County Legal Services, due to budget cuts, has had to cease all intake, yet the problems increase.

The people who are on supplemental security income who are being cut off often do not get a reason for the action in their cutoff notice. You have to know the reason in order to be able to prepare a defense if you want to appeal. Yet, without a reason, they cannot prepare a defense.

In addition, legal services in the State of Michigan has received a 25-percent cut. As people who are cut off from SSI, seek help to appeal that cutoff, they find that legal services has been reduced, and they are up a creek in getting the legal help they need to appeal the cutoff. People are trapped.

I would like to point out to everyone that when people are cut from supplemental security income, they end up on general assistance, which is totally State supported or financed. The ADCU, which is the ADC program for incapacitated parents, is financed 50 percent by State money. So the State is trapped again with more costs for the State and to Michigan's less capacity to pay the cost.

I was one of those some years ago who fought very hard for ADCU—aid to dependent children for families with unemployed parents—because day after day as a social worker—I happen to be a former president of the National Association of Social Workers—I was running into cases where fathers were leaving their homes and their family not because they wanted to, but because they couldn't get a job.

The only way their children and wives could get something to live on was for them to leave the family. Now the proposal to cut back on ADCU only means a renewal of family breakups. That is indefensible in this society.

The priorities of this National Government leave much to be desired.

Funds taken away from human services are given to the military. There are 1 million food stamp recipients in this Nation who will be cut for a savings of $1.20 billion and, for $1.3 billion, 1 Trident submarine will be built.

Food stamps are not only to put food in people's bellies and prevent poor health, they also have served in our State to increase local farmers' income. Food stamps are used to purchase local farm products. They also create local jobs in the local grocery stores and food delivery systems.

There are 150,000 people due to be cut from subsidized housing units to save $10 million, two-thirds of the amount the Pentagon spends every half hour, while those with tax breaks continue to receive their benefits.

Today in Michigan we have some 400 schools that have abandoned the school lunch program. The changes in the eligibility requirements for people to get reduced rate lunches have raised the cost for many to a level they cannot pay. Therefore, the number of lunches served has been reduced to the point where it is economically unfeasible for the school to serve any lunches.

That means an increase in malnutrition and hunger and a decrease in learning ability as documented by a variety of scientific studies.

The Michigan Nutrition Commission did a study last summer of emergency food supplies in the State of Michigan because people keep telling us the private sector will fill the gaps.

I want to report to you that in June and July in Michigan, before the October 1 cuts, we found that the emergency food depots across this State were running out of food at midmonth, including David Stockman's former congressional district. Those emergency food depot operators tell us, please don't let anybody know we have an emergency food kitchen or depot. We are overloaded, and we can't handle it. It is worse now.

October 1, 1981, saw the elimination of food stamps for some senior citizens with extra high utility and/or health costs. We found that senior citizens were suddenly flooding the emergency food depots in the State of Michigan because they couldn't make it. Now we hear of further cuts in the entitlements programs, including food stamps, school lunches, et cetera.

Today in Michigan, in Detroit, we have a 68½-percent unemployment rate among minority teenagers. What we find at the same time is the cutbacks in the social security survivor benefits for children in school.

People were not notified that those cuts were going to come through. In fact, in one high school in this city the counselors found out only because someone read it in the newspaper and told the counselor. There are untold numbers of young people in high school in Detroit and across the Nation who are struggling like mad to figure out how to compress their senior year in high school into one semester in order to be able to get into a vocational training school or university, or community college before the 1st of May to have some kind of hope for the future.

I have heard people say if you need help, your family will help you and then your church will help you. There is no need for Government money. We have churches in this town where half the people are retired and the other half are laid off.

Our block grant money has been used in Detroit to repair the homes of senior citizens, roofs, furnaces, and plumbing.

When that money is cut and the budget projections include some cutting of that money, it means that there will be senior citizens who can't repair their homes. Those homes will be abandoned and whole neighborhoods will go down the drain as a result.

Consequently, I plead with you on behalf of the people, on behalf of the young man who every day in this town wakes up, calls the fast food chains to see if there is a day's work, and if he can't find it, goes to the day labor depot and if there is no job, sells his blood; I plead for him.

Right now he has an offer that there may be a job for him in Seattle, but he has no money to go there. Traveler's Aid can't give him the money because he does not have a firm job offer.

I plead for these people, and for you to find some way to stand up and say, there must be an end to the excesses in the military budget. There must be a concern for the human being who lives in this country who is supposedly the backbone of this Nation. We must help people with jobs and services.

[The prepared statement follows:]

STATEMENT OF MARYANN MAHAFFEY, PRESIDENT PRO TEM, DETROIT CITY COUNCIL

Thank you for coming to Detroit. I am Maryann Mahaffey, President Pro Tem of the Detroit City Council, Chair of the Better Health Care Coalition, Chair of the Michigan Statewide Nutrition Commission and former Deputy Chair of the White House Conference on Families.

The U.S. Constitution states that government has the responsibility to promote the general welfare. In fact, our founding fathers believed that government had a responsibility to create equality and social justice. The current administration, through its budget, is, however, creating inequality and social injustice. The safety net programs, those protecting the "truly needy", are recognizable mostly by their gaps. Let me give you some case examples, including some examples of the interrelationships between programs and cuts:

Mrs. Red and her daughter's home was flooded. The daughter has two children, John, age 4, and Martha, age 3. Martha has heart problems and was hospitalized in May, 1981. She also suffered a brain stroke which left her speechless and unable to walk. During the time of Martha's hospitalization, her grandmother became ill with uncontrollable hypertension and was also hospitalized. At present, arrangements have been made for a visiting nurse. Martha is being transported by bus to the Oakman School for the Crippled, and is receiving speech and physical therapy for walking. John is attending the Head Start Program four days a week at the neighborhood school. The family is functioning well because of the family support and the community resources that are involved, but all of these resources are subject to reductions and cuts. With the implementation of the federal budget cuts and the resulting reduction of state services, this family will suffer greatly and quite probably will not be able to stay together and have their specific needs met. The proposed cuts will mean severe curtailments in home health care. Special transportation needs will be drastically reduced and Martha may not be able to get to her special school and receive physical and speech therapy.

Mrs. White has three teenage children and has finally, through CETA, been able to get off welfare to work and accumulate experience to help her qualify for future jobs. The rug has been pulled out from under her. Her chance at a real future was removed when CETA cuts came into effect. Mrs. White had felt for the first time a sense of hope in realizing her potential as a worker, mother and human being. Now she is forced back on welfare with a decreased grant level due to federal and state cuts, and inflationary prices for goods and services.

Mrs. Bondy worked at General Motors Corporation for 2½ years. After she was laid off, she began collecting TRA benefits and eventually enrolled in an MESC-approved training program. The recent cuts in TRA benefits for those in school have rendered Mrs. Bondy and her two children indigent. She has been forced to go on welfare. She had to sell her car, and high rent and utility bills have forced her to move to a small apartment in a neighborhood in which she feels her children are unsafe. Due to cuts in the school lunch program, she has to spend more money for her children's lunches. Her medicaid coverage is considerably less comprehensive than the Blue Cross/Blue Shield coverage she had while working at GM. Thus, she spends more out-of-pocket for health care.

Mrs. Bondy was gainfully employed and self-reliant. Through no fault of her own, her independence was snatched away from her. She turned to the federal government through TRA for assistance in going to school so she could again become gainfully employed and self-reliant. Now, not only has private industry failed her, but the federal government has thwarted her attempt to stand on her own two feet.

The City of Detroit is already reeling from unemployment. We have lost 3,000 CETA workers; 16,000 will be laid off by 1982. TRA benefits, which have been sustaining thousands of laid-off auto workers, have been drastically reduced. Detroit bus service has already been reduced during off peak hours. We anticipate that the proposed reductions in transportation subsidies may mean virtual elimination of services at times other than during peak hours and even those runs may be reduced. Bus fares would rise over 150%, putting public transportation out of the reach of the city's poor. People will be unable to get to the doctor, to health services, to get their groceries. Sewage rates will have to be raised 40 to 45% if the proposals for subsidy reductions go through. We are currently under court order to clean up our water; we are on target with the cleanup. However, if the subsidies are eliminated as projected and we must continue to meet the standards of the court order, we face a potential increase of 116% in our sewage rate. The choice then will be dirty water or rates beyond most people's ability to pay. People are already having trouble paying their water and sewage bills.

Within the last six months, three health centers providing maternal and child health services to over 11,000 Detroit residents have been forced to close for lack of funds. Because of the Reagan budget, the remaining centers will have to compete with other health programs for a piece of the smaller "health services" block grant. Two additional health centers will be forced to close and 5,000–8,000 patients, the majority of whom are children (and all of whom are truly needy) will be denied services. It now takes over three months to get an appointment for a physical at a Detroit public health clinic. Such is often necessary for a job. Medicaid does not cover preventive physicals. The continuous raises in Blue Cross/Blue Shield rates affects most the people who are in small groups and individual policy holders. They are those with the lowest wages and the least protection. We have had a committee working in Detroit for over a year to try to obtain coverage for health services for people who do not have insurance and are ineligible for medicaid. This has consisted of trying to get doctors to provide some free services. Few volunteered.

In the meantime, we find people without health care insurance go to the hospital emergency rooms for care. This is far more expensive than medicaid; yet, this is what people are reduced to. Rat control and lead-based paint control programs will be eliminated under the proposed budget cuts, and immunizations, social hygiene, research and planning services will be reduced.

Mental health services will receive sharp cutbacks, including alcohol and drug abuse programs. So, too, will services which try to keep families intact during times of distress. For example, unemployment brings with it depression which often leads to suicidal tendencies or suicide. Yet, over a year ago, our Suicide Prevention Line, a private, voluntary, non-profit service, staffed primarily by volunteers, was closed down for lack of funds. Unemployment increases; people's services are reduced and the Suicide Prevention Line does not exist.

Legal services have been drastically cut, leaving no legally trained advocates to assure that the rights of the poor are protected. Recently, Wayne County Legal Services has had to cease all intake. There is less money, but certainly no fewer problems. People on supplemental security income are being cut off, often without any reason given. They must have a reason in order to be able to prepare a defense in order to request a hearing to try to reverse the decision, but Legal Services has a 25 percent cut in Michigan, along with the increased load. Therefore, many people are without the legal help necessary to determine the reason for cutoff and prepare for administrative hearing. The end result is that those cut from supplemental security income will end up on general assistance which is totally state financed or Aid to Dependent Children for incapacitated parents which is 50 percent state money, and that state money is being cut. There are also federal plans to reduce or eliminate Aid to Dependent Children for Unemployed fathers. I remember fighting for ADCU, because day after day, as a social worker (and former president of the National Association of Social Workers), I ran into cases where fathers had left home and families because it was the only way their children and wives could get food in their bellies and keep a roof over their heads. As long as the father stayed with his family, they were not eligible for Aid to Dependent Children. If those ADCU cuts go through, we will again be forcing family separation and breakup. That's indefensible in this society. Our National priorities leave much to be desired.

The message is very clear. The administration's priorities have led them to take funds away from human srevices and give them to the military. One million food stamp recipients will be cut as a "savings" of $1.20 billion, and for $1.3 billion, one Trident Submarine will be built. 150,000 poor people will be cut from subsidized housing units under Mr. Reagan's cuts; this will "save" $10 million—two-thirds the amount the Pentagon spends every half-hour! Those receiving tax breaks continue to benefit, while children continue to starve.

The food programs are a case in point. The National School Lunch Program was designed to insure that school children get at least one nutritious meal a day. It is a vast program, burdened with paperwork, sometimes there is waste. But since it began in 1946, its benefits have been remarkable. Two years ago, a team of physicians reported that Federal nutrition efforts, among them the lunch program and the Food Stamp Program, had eliminated most of the gross malnutrition and hunger they had found in America twelve years ago.

Federal help meant that 90 percent of the country's schools participated. Those children who could afford to pay did; those who could not, paid nothing. Some paid reduced rate lunches; those reduced rate lunches meant that along with the free lunches, a sufficient number used the lunch program to make it cost effective for the local school to serve. But in the last few months, the program has been cut by $1 billion, or 40 percent. As a result, meal prices have had to go up sharply. As a result of that, three million children and 400 schools have dropped out of the program. Schools in Michigan have closed their school lunch programs. School officials have testified that all the subsidies go into one pot and that they cannot feed poor children without the funds also allocated for the more affluent, namely, the reduced rate lunches. Church organizations have testified in Lansing at the House Appropriations Committee that there is no way they can meet the needs of hungry people. The Nutrition Commission did a study of emergency food supplies in the spring and early summer of 1981. Across the state, the emergency food depots reported that they ran out of food at mid month. This was before the October 1st cutbacks. They plead with us not to publicize their program; they cannot keep up with the need. This even includes the emergency food depots in Mr. Stockman's former congressional district. In October, these same emergency food depots documented a large increase in senior citizens seeking their help. This would be related to the cuts in food stamps. Before this time, senior citizens with extra high utility and health care costs were eligible for $18 a month in food stamps. This has now been eliminated and they are showing up at our emergency food depots, and we cannot keep up.

President Reagan and Budget Director Stockman say they want to cut the program even more, eliminating any Federal subsidy for meals served to children whose families are not needy—and saving an estimated $180 million. In other words, a program directed toward all the nation's children is to become a welfare project and a badly funded one at that. It is also important to point out that the Food Stamp Program brings millions of dollars into our economy each day and each month. It means that it increases the food purchases of local farmers and it increases the number of jobs in the local grocery stores as people use the food stamps to buy local products.

The Women, Infant and Children Food Program is also threatened. The allotment is the same for this fiscal year as the last fiscal year. With the increase in cost, it means that either the food must be reduced or the number served reduced. This is a program that supplies food for pregnant women. It has been documented time and again in scientific studies that the Women, Infant and Children Program has reduced infant and maternal mortality; it has reduced infant brain damage and it has thus reduced the cost to society of future services for retarded children, for handicapped children, by simply making sure that they are healthy. The food program for senior citizens has also been damaged. The allotment is the same as in the past and plans are to increase the eligibility requirements. The end result is again a choice between serving fewer senior citizens or reducing the food in those programs. There are thousands of senior citizens who rely on the congregate meal program for their major food supply to stave off hunger, ill health and early death.

Social Security Survivor Benefit cuts have been inhumane. Students did not know that the cuts were coming. Students in Detroit learned about it from the newspaper, told their counselors and then began the struggle to try to compress their senior year into one semester so that they could hopefully be enrolled in a vocational training course or college program before May 1, 1982. This is particularly harmful and damaging to students and hurtful in Detroit where 68.5 percent of our minority youth are unemployed.

Families in some instances, due to their own unemployment and reduced income, have turned their 18 and 19 year olds out on the streets because they can't afford to keep them. The young people then are faced with finding a place to live. The emergency shelters no longer have 24-hour a day housing. In fact, in one shelter in Detroit, one must sign up between one and three in the afternoon every day in order to obtain a mattress that night. People who cannot get the mattress then sit outside the building all night in hopes that if someone tries to create trouble for them, the security guard inside the shelter will hear, open the window and yell to drive off those who are harassing the people trying to sleep on the outside wall of the shelter. I have heard people say that if people are in need, they should turn to their families and then to their churches and not expect government to help them. The problem is that many churches in our town have one-haif of their members retired and the other one-half are laid off.

And what can the city offer. We have already cut back on library hours. Many of us in the 1930's managed because at least we could go to the library and take out books. The library hours have been cut; the book purchase allotment has been eliminated. We could also go to recreation programs, but today, our recreation centers are operating in many instances with one professional staff member and one maintenance person so that programs are exceedingly limited. In addition, we have no money to repair the roofs as they begin to leak. The end result is that we are unable to make even leisure time services available to people who have no other resources.

Our Block Grant money is threatened. We have used it in this community for repairs for senior citizen homes, to repair their roofs, their furnaces, their plumbing—not cosmetic repairs such as painting but to keep the basic house in reasonable condition. As a result, senior citizens have been able to remain in their homes; the homes have not deteriorated to the point of being abandoned and that has reduced the number of abandoned, run-down homes and saved many of our neighborhoods. But if the Block Grant cuts go through, we will have less money. We will not be able to to help our seniors and our neighborhoods will fast go down the drain.

In the meantime, as services are cut, as state money is cut, we find nursing homes not willing to take medicaid basic care patients which then puts even greater pressure on families to care for their elderly and ailing relatives. The proposals to reduce regulation and get government off our backs also threatened our senior citizens who must go into nursing homes. This is particularly stressful for us in Michigan. We recently adopted a comprehensive nursing home bill which insures that nursing homes will be inspected without notice, that the records will be publicly available and insures a better standard of care. This is possible because medicaid money, federal money, has been used to pay our health department to do the inspection. A proposal for deregulation emanating from a committee, chaired by Vice President Bush, would eliminate the medicaid money for inspections. Instead, the Joint Commission on Accreditation of Hospitals, which is a private organization, would inspect nursing homes. They would give six weeks notice. Because it is a private organization, the inspection reports would not have to be made public and the inspections would be paid for by the nursing homes. There are some nursing homes—three—in this area that have been given a clean bill of health by the Joint Commission on Accreditation of Hospitals, but our own health department has found them lacking. This kind of saving of federal money only means that our medicaid dollars will then be spent to provide care for people what will be less than they deserve, and less than our money should be purchasing.

In closing, I would plead with you to fight for a change in priorities. Human services are being cut back in the name of eliminating waste and fraud while the fat and wasteful military budget is increased. Millions of poor people struggle day by day to survive, falling through the holes of the safety net, while the administration's proposal will give the biggest tax breaks to the wealthiest and nothing will be done to close the tax loopholes that allow millionaires to pay no taxes. Nothing is being done to eliminate waste and fraud in the military. I plead with you on behalf of the young man who every day when he wakes up in Detroit calls the fast food chains to find out if someone has reported ill and he can get a day's work. If that is not successful, he then goes to the day labor depots in hopes of getting a day's labor. If he is not successful there, he sells his blood. He has been told that there is a possibility of a job with one of the fast food chains in Seattle, Washington but there is no firm job offer and Travelers Aid cannot give him the money to go to Seattle without a firm offer, and he does not have the money to go either. I plead with you, on behalf of this young man and all the people who so desperately need food and shelter. I implore our U.S. Representatives to do everything within their power to see that national and humane alternatives are created. I believe that a democracy means a government whose responsibility is to protect people in their work place, their right to food and shelter and jobs and to insure equity. Thank you very much for the opportunity to appear before you today.

Chairman ROSTENKOWSKI. Thank you.

Mr. GIBBONS. You give very strong testimony and very convincing testimony.

You put flesh and blood on the skeletons that we see when we talk about these things in just statistical terms.

Let me ask you some things about Detroit that disturbed me.

I have not been here in some time.

Last night I picked up your local newspapers and read two things, auto production workers were grabbing bottoms, pinching bottoms.

I just repeated what the newspaper said, sexual harassment, and that the schoolteachers had a 50-percent higher absentee rate than the national average.

The principals were complaining. They couldn't get them to work. What is the trouble?

Ms. MAHAFFEY. Sexual harassment has been centuries old. It is not limited to auto plants. It exists everywhere, whether it is in a grocery store or in a legislative body, wherever it might be.

What we are trying to do is simply make it a public issue so people will begin to look at it and change their habits.

As far as the school system is concerned, I can't speak for the school system. It is a separate unit from city government, but there is a lot of demoralization because of what people see happening, not only to their standard of living, but the possible future standard of living.

Mr. GIBBONS. I am from the South and I keep hearing all this military money is going to the South.

I am waiting to see it. My schoolteachers, they came to school and taught when there was no money. Why can't these teachers get on the job when they are not being paid?

Ms. MAHAFFEY. My experience is that the overwhelming majority of teachers in our system are dedicated.

I think it is the same problem that we have with the military.

We have abuses. We have excesses. We have to go after them without eliminating what is good.

I don't believe in a meat ax approach, and I think to say that all teachers are bad because there are some who are not——

Mr. **Gibbons**. I am not saying that, but I want to know why they have a 50-percent higher absentee rate here in Detroit than the rest of the Nation.

Ms. **Mahaffey**. As I said, the city council has no responsibility for the board of education.

I can only give you general impressions which I have already.

Perhaps the board of education would be interested in, you know, in giving you their testimony, but they are working at it, as compared to some situations I know of where it does not seem to me anything is being done to try to root out abuse.

We are trying to root out abuse and we are bringing it into public attention so we can.

Chairman **Rostenkowski**. Thank you very much.

Dr. Dempsey, proceed with your testimony and you will be followed by Mr. Taylor.

STATEMENT OF JOHN T. DEMPSEY, DIRECTOR, MICHIGAN DEPARTMENT OF SOCIAL SERVICES

Mr. **Dempsey**. Let me say, I am John Dempsey, the director of the Michigan Department of Social Services.

I have a somewhat lengthy formal statement I would like to submit for the record, and sum it up, orally, and I assume that would meet your pleasure.

One more comment very quickly though, Mr. Taylor is the director of the Michigan Employment Security Commission.

He and I did not realize until we got here this morning we were part of a panel, so we have not prepared a collective approach.

We just will each make our points.

The points I am going to make are a little bit different than anything that has been said here today so far.

You made the comment in your opening remarks that the election last November represented a significant change, not only in terms of the person and personality of the President, but in terms of the American people's expectation of the way Government should do business and I think that is very true.

I have been in State government for about 13 years, and the first of 4 or 5 I spent as State budget director, and the last 8 I have been the State social services director, and I have seen a rather substantial change in public opinion that concerns me terribly.

When I was budget director back in 1971 and 1972 and 1973, and we had trouble getting something in terms of welfare through the legislature, I would go to the friends of mental health or the friends of education and use them as a coalition, and so forces that most of us tend to think of as do-good forces tended to cooperate.

In the last 4 or 5 years that has ended almost completely, and now what we see is a strong division with the friends of mental health saying why do you spend so much on welfare; and the friends of education saying, why do we put all this money down this endless funnel, and the friends of welfare saying, in effect, teachers don't work enough, too much sick leave and so on.

I guess what I am saying is, I see a pulling apart of a social consensus that I thought was extremely important, and that has not begun just in the last few weeks or months, but several years ago.

The second point I want to make is that so many of the witnesses who spoke here before talked of the fact, at least my reference, that Michigan pays far more in taxes to the Federal Government than it gets back.

That is something that has plagued this State for a long time and I remember meeting with the Michigan congressional delegation on it 10 years ago. It is a fact. Everybody who has appeared here so far said, let's spend more money. The net effect would be to take even more money out of Michigan.

We have a peculiar State here. You heard one side of it, but there is a second side.

Last year we had the third highest average personal income growth in America at a time when we have this tremendous unemployment.

The reason we are a 50-50 match State—and even New York is a higher match State—because although we have high unemployment, we have extremely high wages, so in Michigan we have 550,000 people out of work, almost constantly, but we have more people working for higher wages than ever and that partly accounts, I think, for the beginning of the degeneration of this social consensus I spoke of.

Because we have been through terrible times in the last few years, we have cut grants to the poor on several occasions, and whereas a year and a half ago we were either second or third highest in the Nation behind Alaska and perhaps Wisconsin, we are now about 12th, but at this precise moment we have a constitutional initiative petition circulating in Michigan with conceivable—well, with good prospects of being enacted—which says in effect the voters will, if they say yes, and they may insist, that we set our level of public assistance grants at the average of five surrounding States.

This would immediately knock us down at least $100 monthly and would take us down probably to the middle of the pack and how we can be the second highest wage State in the country and pay the 25 highest ADC grants is a real good question.

As far as the Reconciliation Act ADC changes are concerned, they have caused a little trouble in Michigan because, in essence, they were things that we had done or we had tried to do.

The most outstanding is the example of the stepparent liability issue.

Because, as Mr. Hollister mentioned, we started running out of money 3 years ago, we started cutting all sorts of things where we could and one of the things we thought we could do was make stepparents responsible for ADC children of a second marriage, so we passed a law to that effect and took off about 4,000 stepparents whose incomes or families whose income of the stepparents was such that they could be taken off. We also added people who were very low income and so we made our system more equitable.

We got sued and it went into Federal court and the Federal court threw it out and said we couldn't do it. That was in August.

Congress then passed the Reconciliation Act. So we took people off in April, put them back on in August, and Congress passed the law in August and September and we took them off again in October.

That saved us some money. I don't think it is a socially bad policy, but we don't know what its long-term effect will be, but it is something Michigan had to go to and therefore we cannot be critical of the Congress.

Many of the other cuts that have been made in the department of social services have been relatively modest and not caused that much trouble, so up until now I think what Congress and the administration did probably was good because it reduced the excesses in the system and there are excesses, and it made it a more defensible system. The biggest criticism I have heard in my years as welfare director from the general public and well-informed organizations is the argument that it is unfair to have two people working side by side and one making more than the other because of an income disregard.

Congress, in the Reconciliation Act, limited the $30 and one-third provision to 4 months and that will do away with that argument. We don't know what it will do in 2 or 3 years.

There is a contention everybody will quit working, and I don't believe that. If they do, in the end it will cost us more; for the moment I think it is sensible policy.

Almost everything that was done is supportable, but now we get to another area, and here I have to be a little bit cautious. We don't know what is going to come out of the administration in terms of the 1983 or 1984 budget proposals.

We have heard a tremendous amount of speculation and it was mentioned limiting ADCU to 3 or 4 months.

We heard that some time ago and were told it was not true.

We hear three types of things that the administration will be concentrating on.

One are some significant changes in food stamps, and the second is to try to reduce the cost of welfare by deducting from the ADC cash payment the bonus value of food stamps, the low-energy assistance payment, and the housing subsidy.

Now, in my State of Michigan, if that should be passed nationally, a family of four with no income living in an average value home and so on and so forth today gets, including food stamps and everything, about $7,800 or $7,700 a year.

That is rather attractive compared to some other States, but again I make the point that it costs an awful lot up here.

If the administration's proposal to count the value of food stamps occurs, the value of assistance for that family will drop to about $6,200, and in particular I would call this to the attention of the southern delegations because, for reasons that are very clear, over the years the South has tended to rely on food stamps more than the North, and when you start tinkering with food stamps or cash, you are going to hurt the South an awful lot more.

The average family in Michigan gets $80 a month in food stamps. The average family in State A gets $320, which is below the Mason-Dixon Line.

You talk about all that food stamp money staying in the North?

We keep hearing the administration is going to insist on compulsory work requirements for people on public assistance, and this is a natural lead perhaps into Mr. Taylor, because he handles the work requirement historically.

We are told that everybody on ADCU will be required to participate in a job search. I don't necessarily have a major problem with that, except you have heard so much today about where are the jobs. Sending 40,000 more people to look for jobs on a compulsory basis might not be fruitful.

Second, we are told in every ADC family when the youngest child hits 16, the needs of the parent will be removed from the grant on the theory the parent is then employable.

The real question is whether or not there is a job there, so the major point I want to make in conclusion is, if the Congress, in response to the administration or for any other reason, decides to start experimenting further with job programs or work opportunities or work requirements, for God's sake, make them optional.

Because of my State's fiscal problem, we have a requirement that everybody on general assistance participate in community work experience and so on.

I have 75,000 able-bodied people on general assistance. Add 40,000 ADCU and maybe 150,000 ADC and you have a population that is larger than my uninsured population and there is no way on Earth I can be responsible for trying to find jobs for 400,000 people, so if you are going to do something, make it voluntary.

I have sat in on many congressional hearings, and I do have to say this as an example.

I was at Fred Richmond's Agricultural Subcommittee this summer and one of the questions that Representative Findley from Ohio was pushing was work fare for food stamps, and they brought in a bunch of county directors from a small southeastern State and they all said this is great.

I talked to some of them afterward, and they said they had 11 and one said 14 food stamp recipients in their county.

I have almost 400,000 stamp recipient families, and it is a little different to try to work work-fare opportunities for 400,000 people than it is 11.

Whatever you do, you have to do it nationally and this Nation is so different, and that is very important.

Thank you.

[The prepared statement follows:]

STATEMENT OF JOHN T. DEMPSEY, DIRECTOR, MICHIGAN DEPARTMENT OF SOCIAL SERVICES

Thank you for the opportunity to testify on behalf of my Governor and my Department.

As we meet here, the nation is entering another recession; whereas, in Michigan, our recession continues. The enormous burdens facing the families of this state, as well as state government, are often ignored by a nation which has not had to confront the hardships we are currently experiencing. Not since December of 1979 has the unemployment rate in this state been below 10.0 percent. In an average month during 1980, almost 550,000 people were unemployed, or one in eight members of the labor force. During the first 10 months of this year, the figure has averaged over 525,000, and economic forecasters tell us that like the nation, the state's economy will get worse before it gets better. This situation forced the state, in the fiscal year just ended, to have an actual reduction in our general fund/general purpose budget.

We became the only major unit of government in the country to have a net reduction in spending since the Depression. I point all this out because it is important to remember that we are discussing the impact of changes in public assistance programs just at the time when our responsibility is the greatest, but our resources are scarcest. It is now more than ever that we must be serving the public in the most efficient way possible.

It is in this environment that the Reagan Administration and the Congress have begun to make substantial changes in the extent and nature of the federal government. We have the highest regard for the economic goals of the Administration. Nothing would serve our clients better than the end of inflation, a cruel and often hidden burden on the poor who use a disproportionate share of their income to purchase food, shelter, and energy; just the areas where inflation has been worst. We also support the long run goal of putting America back to work. Economic prosperity and broad employment opportunities would be welcome throughout the nation, but they would be especially welcome in Michigan. Furthermore, we recognize many of the changes being made in our public assistance programs are long overdue. Some, like counting stepparent's income and restricting eligibility for dependents over 18, are changes which we in Michigan had already acted on. Others are changes which address the fundamental need to reduce costs and more effectively target assistance payments.

I would call to your attention the fact that there is a rising tide of anti-welfare sentiment today. My state, which has prided itself on its responsiveness to the poor, has cut public assistance payments twice in the past eight months.

We used to have the second or third highest benefit levels in the country; suddenly, we're now about twelfth highest. And precisely at this moment, we now have an initiative petition circulating—called the Save Our state movement—which would lower grants further.

The changes made in the Omnibus Reconciliation Act have reduced certain "excesses," and eliminated certain "inequities." In that sense, you may have helped save the public assistance program.

Obviously, if I had complete control of these programs I might do things a little differently—we all have our own ideas about what's best—but I can say that the overall thrust of these changes is positive and that we should avoid making strict judgments about individual changes until their effects are better known. In a year, we can consider the overall impact and make recommendations for amendments to rectify any problems. But for now we should avoid the temptation to be doomsayers.

The Reconciliation Act made many specific changes in the AFDC program. I think it would be valuable to give you a short summary of them, along with our estimate of what the effects will be in Michigan.

CHANGES IN THE EARNED INCOME DISREGARD

The earned income disregard was changed in three fundamental ways in the Reconciliation Act.

The work expense deduction was capped at $75.

The deduction for child care was set to allow actual costs up to $160 for each child of a full time worker, and a portion of that for part-time workers.

Households which have earned income for more than four consecutive months will no longer receive the $30 and ⅓ incentive disregard.

These changes will affect all Michigan AFDC cases with earnings, or about 30,000 families. About 4,800 cases will close and almost all other earnings cases will have reduced grants as a result of these changes. Total AFDC expenditures in Michigan will be reduced by almost $18 million this year and by as much as $26 million in fiscal year 1983.

There is widespread concern that those changes are so severe as to virtually eliminate incentives to work. We frankly don't know. We expect most, if not all, affected AFDC recipients to continue to work. Recipients who have significant earnings, who may be about to escape from welfare to return to self-sufficiency or to attain self-sufficiency for the first time, can be expected to continue on this path. Too much is at stake for these families to be thwarted by a change in our rules.

In any case, this change had a special benefit for Michigan. Our fiscal crisis has forced us to cut back substantially in state support for AFDC. These cuts, which are targeted to those with other sources of income, relieve us of a part of our need to make further across-the-board cuts.

GROSS INCOME LIMIT

In determining eligibility for AFDC, financial needs, as defined by the states, are compared to income net of certain deductions. Depending on the situation, these deductions can be so large as to allow households with substantial gross income to become eligible or continue eligibility for AFDC. The Reconciliation Act established a gross income limit of 150 percent of the state's standard of need. We have supported the idea of an income limit. During the initial discussion of this change we proposed modifications to the old disregard which would have effected this goal in a way that we thought was simpler and more equitable. But despite our concerns about the exact form, we believe the new policy makes sense as a method of directing assistance to those most in need. We expect to have savings of about $17 million this year as a result of closure of about 4,800 cases.

ASSUMPTION OF STEPPARENT INCOME

The law now requires us to count a portion of the stepparent's income when determining AFDC eligibility and benefits for needy stepchildren living in the same home. Michigan implemented a nearly identical measure last March in an effort to contain costs and target scarce state funds to those most in need. Over 70 percent of our stepparent caseload was closed at the time, for an expected annual savings of $10 million. This policy places the obligation of basic support of stepchildren in the family. We think this is good public policy which allows us to use funds more effectively.

RESOURCES CONSIDERED IN DETERMINING NEED

The limit on resources has been reduced for AFDC families to $1,000 equity value for countable assets with fewer exclusions than previously allowed. Those resources that still are excluded are an owner-occupied home, no more than the first $1,500 in equity value of an automobile, and, at state option, items essential for day-to-day living that are of limited value. In Michigan, we do not expect that this change will result in many cases closing; in fact, excluding the equity value of a car could actually expand our caseload slightly. We feel that those few cases closed by the new policy have sufficient available resources to meet their needs without immediately resorting to public assistance.

AGE LIMIT OF DEPENDENT CHILD

This change modifies the optional program covering children age 18 and over. States must now drop from the AFDC case those children over age 17 unless they can reasonably be expected to complete high school before reaching age 19. Michigan dropped from AFDC those students in college and vocational training in August 1981 as a cost containment measure. It was felt at that time that these students had other potential resources in the form of educational grants, scholarships, and low cost loans that could be tapped, while other needy people must depend on public assistance alone. The change saved nearly $11 million in AFDC.

ADJUSTMENT OF INCORRECT PAYMENTS

Under the new recoupment provision, states must attempt to recover all overpayments and repay all underpayments if the household is still in need when it is discovered. Michigan had previously attempted to recover all overpayments caused by client error, or when benefits continued pending a hearing decision and the Department's actions were upheld. Overpayments in excess of $500 were considered recoverable in cases of administrative error. In most cases, however, recoupment could not be required unless the client had available income or liquid assets. With the new more flexible provisions, we expect to increase the amount we recover from overpayments and reduce the administrative complexity for our field staff. The requirement that states repay clients for underpayments has been a longstanding policy in Michigan.

RETROSPECTIVE BUDGETING AND MONTHLY REPORTING

The new law requires states to budget all income and needs retrospectively; that is, client benefits are based on actual circumstances of a prior month. This eliminates the need to project income or to make supplemental payments. Eligibility is prospectively determined based on the best estimate of available income and circumstances which will exist in that month. All clients must submit monthly reports in order to continue receiving benefits. Prior to October, Michigan used retrospective budgeting of income, but not need. All those with earnings and fluctuating income were required to submit monthly reports. The new regulations therefore have less impact in this state than in states which had previously used prospective accounting. Nonetheless, with the tougher sanctions for recipients who fail to report, these changes will give us estimated savings in fiscal year 1983 of over $13 million. We expect to implement monthly reporting for all clients not currently required to do so in January.

ADVANCE PAYMENT OF THE EARNED INCOME CREDIT (EIC)

The EIC supplements the earnings of the working poor through a federal income tax credit for families with income below $10,000. Employed AFDC recipients are expected to file a special withholding form with their employers to have a regular advance payment of this credit made in their paycheck as is allowed by law. For AFDC purposes we must now count the value of the advanced EIC as income whether or not the household actually receives it. We do not expect a substantial impact in Michigan as the small savings will be partially offset by the increased administrative effort. We accept the need to account for all types of income available to households, but this is a misguided change which has negligible potential for savings, and substantial potential for increased administrative efforts and errors. The welfare system ought not to be used to enforce tax laws.

TREATMENT OF INCOME IN EXCESS OF THE STANDARD OF NEED (LUMP SUM PAYMENTS)

The Reconciliation Act requires that lump sum payments to AFDC recipients be budgeted to meet needs in future months, rather than only in the present month, as was the practice prior to October 1. This will require recipients to consider and budget any lump sums of money they receive in the same manner as their AFDC grant, since they will be ineligible for AFDC for the number of months that the lump sum would meet their needs. Michigan supported this requirement, as it treats lump sums in the same manner as all other earned and unearned income and because Michigan feels that this money should be used by clients for their monthly needs. We do take issue with the rigidity of the HHS regulation, however, since there are no good cause provisions for redetermining the period of ineligibility if the family circumstances change. We would like to see revisions made in this area. This regulation will result in savings for Michigan, though the amount cannot be determined. It will also enable us to target limited financial resources to the more needy.

LIMITATION ON AFDC TO PREGNANT WOMEN

Prior to the changes, AFDC could be provided, at a state's option, to pregnant women with no other children.These women qualified for a special diet allowance in addition to their basic needs. The new federal regulations allow federal matching funds only for payments made during the third trimester of pregnancy. Medicaid coverage continues to be available throughout the pregnancy for those otherwise eligible. The policy in this state continues to be one of providing as many alternatives to pregnant women as possible. For this reason, we will offer assistance throughout the pregnancy at full state cost until federal financial participation starts in the last trimester. This will increase state costs by about $3 million. If a woman elects to terminate her pregnancy, our Medicaid program makes it possible.

The change at the federal level limits options and fails, as well, to recognize that the most critical months in fetal development are the first six, not the last three. The long term risks involved in restricting basic assistance for these early months are not worth the short term savings.

MINIMUM PAYMENT OF $10 PER MONTH

States are now prohibited from making payments of less than $10 per month to eligible households. The household is considered eligible in all other regards. Medicaid and social services eligibility continues, as well as any requirements to register for WIN. This provision will not cause significant hardship for clients, nor will it yield great savings. I suspect there is more appearance than substance to this change.

WORK SUPPLEMENTATION AND COMMUNITY WORK EXPERIENCE PROGRAMS

Two new programs were legislated to help welfare recipients get off assistance and into jobs. The Work Supplementation Program allows a state to reduce grants to selected groups of clients, with the requirement that the savings be used to establish a program of paying jobs available to this group on a voluntary basis. States are given a good deal of flexibility in designing and administering the program. A Community Work Experience Program (CWEP) may also be established, at a state's discretion, to provide on-the-job training and work experience in the public sector. Nonexempt AFDC recipients can be required to participate up to the number of hours derived by dividing the grant by the minimum wage. These two programs attempt to implement the "new federalism" we hear so much about. They allow states, at their option, to develop creative approaches for reducing costs and increasing employability, without imposing excessive regulations. Yet, the regulations are excessive in some cases. For example, the $25 limit on allowable recipient costs in CWEP is unrealistic. This limit applies to all employment costs including day care, and special need allowances are prohibited. This regulation alone will make the effective operation and design of a CWEP program very difficult.

Michigan has not currently adopted either of these optional programs. We do not believe that the success rate would be sufficient to offset costs at this time, given our depressed labor markets. Consequently, mandatory programs of this type would make little sense.

WIN DEMONSTRATION PROGRAM

Another state option in the area of employment policy is the adoption of a single-agency administration of WIN, the AFDC Program which implements the work requirements. WIN has been jointly administered by the states' employment services and the states' welfare agencies. Michigan has applied for and received permission to demonstrate over the next three years that administration by a single agency, our Department in this case, can increase the efficiency and improve the performance of the WIN Program. We look forward to better services, more administrative efficiency, and as a result, higher rates of transition from assistance to employment during the next three years.

ELIGIBLE ALIENS

This regulation requires that, with certain exceptions, the income and resources of a sponsor and the sponsor's spouse be considered available to an alien if the alien applies for AFDC within three years of entry into the U.S. This regulation enforces the agreement that sponsors sign, which obligates the sponsor to support the alien. We have reservations about the effect of this regulation. There is the very real possibility that these aliens will apply and qualify for our entirely state-funded General Assistance Program, if the sponsor refuses to cooperate in determining the alien's eligibility for AFDC. We would request that this issue be reexamined to determine if the sponsor can be legally required to cooperate in order to determine eligibility.

LOOKING AHEAD

I would now like to address the Entitlement Reform Package proposed by the Administration for AFDC for fiscal year 1983. The exact details of some of the proposals are uncertain and need to be developed further, but I will make my comments based on my understanding of them at this time.

COUNTING FOOD STAMPS, HOUSING SUBSIDIES, AND ENERGY ASSISTANCE AS INCOME IN AFDC

Michigan opposes the proposals to count Food Stamps, housing subsidies, and energy assistance as income in AFDC. The broad goal of avoiding duplication of benefits is legitimate. However, these proposals are flawed in two important ways. The administrative complexity of cross-checking assistance amounts is great. For example, the proposal concerning Food Stamps would force us to count AFDC income in determining Food Stamp amounts, revise the AFDC amount because of the Food Stamp income which would, in turn, force us to recalculate Food Stamps because the AFDC amount had changed. Can this requirement be reasonably imposed on our worker? I think not. The other problem with these proposals is that they seek to address overlap where it doesn't exist. We strongly support the resolution passed by the National Council of State Public Welfare Administrators that these programs have been targeted to meet specifically identified needs and, therefore, are not duplicative of each other.

Because of the harsh consequences of reduced benefits, the greatly increased administrative complexity, and the failure to recognize the special functions of each of these programs, we strongly oppose these proposals.

ELIMINATE EMERGENCY ASSISTANCE AND INCREASE ENERGY ASSISTANCE BLOCK GRANTS BY 75 PERCENT OF FISCAL YEAR 1981 FUNDS

This proposal is also opposed by Michigan. The Emergency Assistance Program in Michigan is primarily used for heating and utility expenses, which are rapidly escalating. To decrease federal funding by 25 percent will result in a minimum of $2 million in extra state expenses to keep the state's program at its current funding level. Due to projections of an expanding need for Emergency Assistance, caused by the rapidly escalating heating and utility expenses, Michigan's loss is certain to be substantially greater than the $2 million. This will increase Michigan's severe budget problems, or will result in a cutback of the program, with potentially dire consequences for Emergency Assistance recipients.

PROPOSALS RELATED TO EMPLOYMENT, WORKFARE, AND JOB SEARCH

Several proposals related to employment of public assistance recipients are offered. One would mandate participation in Workfare for all AFDC–Unemployed Parent grantees. Another would require all applicants to go through a Job Search program. States would be required to operate Community Work Experience programs. A parent's needs would be removed from the grant if he quit a job, reduced his hours voluntarily, or refused employment. Once the youngest child reaches age 16, the parent's needs would be removed from the grant if he were employable.

We support giving states the option of implementing these proposals, or parts of them. Requiring states to administer them, however, is not an efficient use of limited resources. The effectiveness of the proposals is dependent on each state's economic picture. Here is Michigan, for example, jobs are scarce, even for skilled workers. The unemployment rate in this state is the highest in the country. We have already overloaded our workers in administering the most important function of the Department, which is providing public assistance to needy citizens. We cannot expect them to also implement employment programs with little hope of success. At the same time, there is no revenue in the state that can be earmarked for hiring new staff to administer these programs. For these reasons, we strongly oppose making these programs mandatory. We believe that making them optional could be quite beneficial for some states, but they wouldn't work in Michigan at this time.

PRORATE SHELTER, HEAT AND UTILITIES FOR ALL AFDC FAMILIES LIVING WITHIN LARGER HOUSEHOLDS

Michigan is against the proposal to prorate shelter, heat and utilities for all AFDC families living within larger households. An analysis based upon a recent Housing Cost Study indicates that little, if any, savings would result in Michigan, and there is the possibility that the proposal might cost somewhat more than current policy. This is due to the fact that we budget actual obligations rather than a flat amount for shelter. Clients who share living quarters with others typically have small obligations, or none at all. This proposal could be more effective if it were optional. No cost figures can be computed for this proposal, as we do not currently collect data on the number of non-AFDC members in these households. We do not feel that the increased administrative burden offsets the minimal savings to be generated in this state. We might be able to support this provision if it were allowable at the state's option.

REQUIRE MILITARY PERSONNEL TO ISSUE ALLOTMENTS TO DEPENDENT AFDC CHILDREN

Michigan supports this proposal, though the savings are judged to be fairly small. Approximately 0.3 percent of AFDC cases in Michigan qualify for AFDC because of a parent in the military. The maximum potential savings to be achieved would be $3.0 million in total funds. However, since military salaries are relatively low and since some portion of these military parents may already be contributing to support, the actual savings are judged to be a good deal less.

INCLUDE ALL MINOR CHILDREN IN THE AFDC ASSISTANCE UNIT

Michigan could support this proposal in modified form, though we believe it will have negligible savings in Michigan. The thrust of this proposal meshes with other initiatives, such as the stepparent legislation, to deem income available to any member of the family unit to be available for the needs of the entire family unit. However, we have reservations regarding the inclusion of SSI children in the AFDC assistance unit, and recommend the exclusion of these children from the AFDC assistance unit as they frequently have much higher requirements due to their disability. No precise estimate of the effect of this proposal is available.

In summary, the AFDC provisions of the Omnibus Reconciliation Act are generally supportable, though not perfect. A reconsideration of some of the specifics of the provisions may be necessary after states have had experience with them.

Although these provisions will cause hardships for some clients, and changes in AFDC do allow states to better target available resources on those who are most in need. If these changes, or similar ones, had not been made, Michigan would have had no choice but to further reduce grants for all AFDC recipients, including those with no alternative sources of income or resources.

However, I do not believe that additional reductions in the AFDC program are reasonable or supportable at this time. Major, radical changes are now being implemented. In Michigan, we have operationalized all the changes. However, fully half the states have yet to begin to implement. The program needs a period of stability to adjust to the changes. Consequently, I could support the new AFDC policy initiatives only if they were made optional for the states. As mandatory changes they are not supportable.

Chairman ROSTENKOWSKI. Mr. Taylor.

STATEMENT OF S. MARTIN TAYLOR, DIRECTOR, MICHIGAN EMPLOYMENT SECURITY COMMISSION

Mr. TAYLOR. My name is Martin Taylor, director of the Michigan Employment Security Commission, and I appreciate the opportunity to be before you to tell you a little bit about my concerns about the problems facing unemployed people in Michigan, as well as the budget cuts facing us.

I, too, have submitted formal written testimony, and I will not read that testimony or cover every detail.

Mr. GIBBONS. It will be made a part of the record at this point.

Mr. TAYLOR. Essentially we have the responsibility of providing two basic services for the workers of Michigan.

First, we administer the unemployment insurance program in accordance with Federal and State statutes. Second, we provide the basic labor exchange function of matching workers with jobs.

I would like to touch briefly on the status of Michigan's economy.

I know that the troubles of the auto industry and the impact on Michigan has received a great deal of publicity and that in part is, I assume, the reason why you are here.

I am not certain people understand just how severe it is.

The Michigan unemployment rate, for example, has been in double digits every month since January of 1980.

All but 4 of those months we had the highest unemployment rate in the United States.

The number of unemployed in Michigan has run on a monthly basis slightly over a half a million people, or approximately one out of every eight Michigan workers.

The lowest unemployment rate that we have had in the last 23 months was 10.7 percent.

The forecasts now with the recent developments in the auto industry lead us to believe that unfortunately the light is not at the end of the tunnel yet.

Most forecasts call for our unemployment rate to go up next year, so we have some way to go.

Our rate for November, 11.8 percent with 521,000 people out of work, and Detroit, or the labor market area, the unemployment area is 12.3 percent and in the city of Detroit the rate is in the neighborhood of 15 percent and, as has been pointed out, which you can certainly understand, is that essentially the methodology for computing unemployment statistics is such that it did not contemplate such long-term unemployment.

I am absolutely totally convinced that the percentage figures that I have just given you are severely understated.

The rates are high. We have so many people exhausting benefits and so many people dropping out of the various systems that there is just simply no method to keep track of exactly what has happened.

There is no question about the fact that every group in Michigan has been affected by this downturn.

Our estimates are that the rate for black youth is 65 percent in the third quarter of 1981. During that same period, the rate for unemployment for all minorities was 26.3 percent.

To show you the mix though, over 20,000 people drawing benefits today worked previously in professional, technical, and managerial jobs and over 25,000 people who are now drawing unemployment worked in clerical sales.

In other words, no one has been immune to this. It is simply not just blue-collar autoworkers.

In addition to the loss of income, all of you certainly have seen the studies and are familiar with the fact that unemployment causes more than just a loss of income.

I won't go through all the figures that have been developed from studies from Johns Hopkins University of the rise of deaths, suicide rates, alcoholism, marital problems, divorce rates, and so forth, which clearly track higher unemployment rates.

In this area now we are experiencing some record-setting personal bankruptcy rates.

It is critical for you and for everyone in Congress to understand just how severe our problem is in Michigan because, when you look at service reduction, it is important that you put it in that context, the context of the problem that we have.

Also in the context that although certainly it is the failings of the loss in sales of the auto industry that brought us into this, it is clear to most of us that the rebound by the auto industry will not pull us out.

The auto industry will not provide the employment here that it used to.

What is happening in Michigan and in this city is structural in nature and we are going to need help for a long, long time to come.

Turning for a moment or two to the Reconciliation Act of 1981, MESC operates many of the so-called safety nets, extended benefits, TRA, et cetera, all programs that are run by my agency.

As a result of the design to reduce Federal spending, some of the aspects of the Reconciliation Act had devastating impact here and I will give you some examples.

Extended benefits, that program is funded 50 percent by the Federal Government, and 50 percent by the State, and the Reconciliation Act you changed the method of computing when the program is triggered on in a given State.

Because of that change in the Reconciliation Act, just 2 weeks ago I had to shut off 34,000 people from all future unemployment compensation benefits.

The thing that seemed so cruelly ironic to me is the fact that the EB program was ending at a time when Michigan has the highest unemployment rate in the Nation, 11.8 percent, and it is rising, and the program that is supposed to help workers who are in severely impacted areas triggers off.

I would urge you to take a look at that mechanism and the methodology and perhaps we should go back to the old system that we had.

TRA, which has been mentioned here, TRA, since the problems with the Chrysler Corp. starting back in 1979, we pumped nearly $2 billion into the Michigan economy, and because of the changes in the Reconciliation Act it is safe to say that the TRA program is over in the State of Michigan.

Because of the changes in the way petition certifications are done and individual eligibility, it is—it just simply will not be there again.

In addition, as I am sure you are aware, Michigan is 1 of 17 States that have had their unemployment insurance trust funds go insolvent.

We have had to borrow over a billion dollars since 1975, or it began in the 1975 recession. Before it is all over, our debt may run as high as a billion and a half dollars.

We will, of course, have to pay that debt off and I guess there is no problem with that.

But now, because of the changes in the Reconciliation Act, we must now pay interest on that debt and we say by mid-1985 we will now have a new financial obligation of approximately $50 million a year in interest on that debt.

Let me close by talking a little bit about the budget cuts, MESC.

They have been severe. All State employment agencies are 100 percent federally financed through the Federal Unemployment Tax Act.

It imposes an effective tax rate of 0.7 on the first $6,000 of wages paid by all employers in the United States.

It goes into Washington and you appropriate it to the U.S. Department of Labor, which in turn obligates it to all the State employment security agencies.

For some reason, we are getting cuts.

To date I have received approximately a 25-percent cut in my budget, and I have laid off over a thousand employees, and closed down slightly over 50 locations in this State.

The question comes, what happens if we get an additional cut?

It will be total disaster, for some of you, you will understand the significance of some of those towns. If we get an additional 12-percent cut, we will have to close down at least 15 major permanent branch offices in this State such as Ann Arbor, Grand Rapids, Flint, and South Haven.

We will have to lay off 500 more employees.

The employment service will simply just not exist any more.

I hate to sound a little paranoid; I believe the unemployment insurance system is one of the best systems to come out of the depression, one of the most efficient systems to be developed.

What these budget cuts will do is make a sham of that system and I can see it, if these cuts come through, that in future years myself and my colleagues around the country will be called on the carpet before congressional hearings and say, why is there so much fraud, waste, duplication in payments and it will be because of the fact that we have been cut so severely that we cannot maintain the integrity of the program.

I would submit to you, and in reading my full testimony we would argue to you that the actual loss in revenue to the State trust fund and to the FUTA will exceed the cost savings to the reduction that are being proposed.

I thank you for the opportunity to testify.

[The prepared statement follows:]

STATEMENT OF S. MARTIN TAYLOR, DIRECTOR, MICHIGAN EMPLOYMENT SECURITY COMMISSION

Mr. Chairman, members of the committee, my name is S. Martin Taylor and I am Director of the Michigan Employment Security Commission. I appreciate the opportunity to present my concerns about the problems facing the unemployed in Michigan, and the impact of the fiscal year 1982 budget on the Michigan Employment Security Commission's (MESC) ability to provide service to the jobless.

The MESC is part of a federal-state partnership that was constructed in the 1930's, and has as its basic legislative mandate the Social Security and Wagner-Peyser acts. In essence, these two acts dictate that there be an agency similar to the MESC in every state. We are totally funded by federal dollars, but are state employees and follow both federal and state guidelines and mandates.

The MESC provides two basic services for the workers of Michigan. First, we administer the Unemployment Insurance program in accordance with federal and state statutes. Secondly, we provide the basic labor exchange function of matching workers with jobs. Of course we administer a number of other programs and provide a variety of other services as an outgrowth of these two basic mandates. A prime example would be the Trade Readjustment program which involves both the payment of UI benefits and the provision of specific job seeking assistance.

After Congress appropriates the funds to the U.S. Department of Labor they are allocated to the states for administration of these programs. The funds that are used for the administration of these programs are not from general revenues, but come from the Federal Unemployment Tax Act (FUTA) tax revenues paid by employers as part of the Unemployment Insurance program. Since those specific and identified tax revenues are included in the federal unified budget, a reduction in administrative costs and services shows up as a reduction in the federal budget even though taxes paid by employers remain unchanged.

I realize, Mr. Chairman, that the information I have just presented is familiar to you and your committee. I felt it was necessary to iterate it, since the impact of the Omnibus Budget Reconciliation Act of 1981 has been felt in nearly every program that affects the unemployed and every agency that provides services to Americans. There have been so many changes that we need to be sure that we are all agreed on the base line from which we started. I would also like to state that I think it is appropriate and responsive of this committee to hold one of its four field hearings here in Detroit, Michigan.

MICHIGAN'S ECONOMIC SITUATION

The troubles of the auto industry and the resulting impact on Michigan have received a fair amount of national attention, but I do not believe the nation realizes the severity of the unemployment depresssion that encompasses the state of Michigan. The Michigan unemployment rate has been in double digits for every month since January 1980, and in all but four of those months Michigan has the highest unemployment rate of any state in the country. For two months Alaska was equal to or higher than Michigan, and during the coal strike West Virginia was higher than Michigan for two months. During this period the number of unemployed in Michigan has consistently averaged over one-half million people for any given month, or approximately one out of every eight Michigan workers.

The auto industry has always been sensitive to the cycles of the national economy. Consequently, Michigan is used to a recession/recovery cycle, where unemployment climbs fairly sharply for a period of time and then is followed by a fairly vigorous recovery. But because of the basic problems facing the U.S. auto industry, the modest national recovery following the 1980 recession was virtually invisible to the Michigan worker.

Although we may have had individual months since World War II when the unemployment rate has been higher than the 11, 12, and 13 percent numbers we have seen for the last two years, we have not had a period of such lasting duration. The lowest unemployment rate we have had in the last 23 months was 10.7 percent, and because of the current national recession and the drastic impact it is having on the auto industry, the forecast calls for Michigan's unemployment rate to move up to new highs during the first quarter of next year. The rate for November is 11.8 percent with 521,000 out of work, up from 10.5 percent in October. In the Detroit area the October unemployment rate is even higher at 12.3 percent or over 255,000 unemployed.

Michigan's unemployment problem is not a temporary one. A long-term forecast prepared several months ago, shows that Michigan's unemployment rate would only decline to 8½ percent in 1986. That forecast assumes that the state would be in a recovery period for 1982 though 1986. Despite five years of recovery, the state would still have an unemployment rate that is above the present U.S. rate of 8.4 percent that is causing so much concern across the country.

Because of the pervasive nature of the unemployment depression in Michigan, nearly every group has been affected. We estimate that the unemployment rate for black youth was 65 percent for the state in the third quarter of 1981. In other words, for every three black teenagers that were looking for work, only one was successful. During that same time period the unemployment rate for all minorities was 26.3 percent. Although the manufacturing industry and construction have been the hardest hit, there have been layoffs in nearly every segment of Michigan's economy. Over 20,000 of the people currently drawing UI benefits previously worked in a professional, technical, or managerial job. Some 25,000 people who were previously employed in clerical or sales occupations are now drawing Unemployment Insurance. In other words, no one has been, or will be immune as the number of jobless rises in the next couple of months.

In addition to the loss of income, unemployment can have a more devastating effect. A study completed by Johns Hopkins Universilty indicates that over a six year period a 1 percent rise in unemployment has the following impact nationally: over 36,800 total deaths, 4,200 admissions to state mental hospitals, and 3,300 admissions to state prisons. Not included in these data are the effects of the stress of unemployment on alcoholism, marital problems, and other forms of human misery. I am sure other individuals giving testimony to you today will more thoroughly discuss these problems.

I realize I have spent a fair amount of time addressing the severity of Michigan's unemployment problem, but I think it warrants the attention. The impact on service reduction to the unemployed in Michigan must be viewed with the full perspective of our unemployment problem and with the knowledge that the difficulties the auto industry is currently experiencing are in many respects structural in nature, and an eventual rebound in the national economy and auto sales will not result in the disappearance of the unemployment problem for auto workers and others in Michigan as we have seen in the past.

OMNIBUS BUDGET RECONCILIATION ACT OF 1981

The changes mandated by the Omnibus Budget Reconciliation Act of 1981 and carried through in the continuing resolutions affected every aspect of the services provided by the Michigan Employment Security Commission. There were a number of changes in the Unemployment Insurance area.

Since the late 1930's, the initial level of protection for people who lose their jobs in this country has been the Unemployment Insurance (UI) program. Because of the highly cyclical nature of Michigan's economy, it has played a critical role in maintaining some stability in the state's work force. Approximately $1.5 billion was paid to unemployed workers under the regular and extended programs during 1980, and through the first ten months of 1981, Michigan paid out over $1 billion. As you know, these monies are "high velocity dollars" which provide basic standard of living protection and are quickly channeled back into the local economy. Legislative changes have modified the U.I. program, with the result that fewer jobless qualify for benefits.

EXTENDED BENEFIT PROGRAM

One of the provisions of the Omnibus Budget Reconciliation Act of 1981 modified the Extended Benefit program. You will recall that this program was established to provide additional unemployment benefits to workers who exhaust their regular benefit entitlement during periods of high unemployment. Claimants who qualify for E.B. are eligible for up to 13 additional weeks of benefits or the equivalent of one half of their weeks of benefits in the regular program. In general, E.B. benefits are financed equally from state and general revenues. Because the method of computing the Insured Unemployment rate was changed by the recent federal legislation, Michigan's I.U.R. dropped below 5 percent and as of November 30, 1981, the program was terminated. If this change had not been made, Michigan's I.U.R. would have been 6 percent and the 34,000 Michigan residents who were claiming benefits would have continued to be paid. These 34,000 now have no income protection. Their only possible source of income is welfare assistance through the Michigan Department of Social Services. Currently over one million individuals in Michigan are already receiving some type of welfare assistance.

It strikes me as cruelly ironic that the E.B. program has ended in the state with the highest unemployment rate in the nation (11.8 percent). Compounding an already difficult situation, the end of the program occurred just as unemployment is beginning to climb again. Once the program triggers off, it must remain off for 13 weeks. The net result is that the earliest the E.B. program can begin again is March 6, 1982. Consequently, it appears that Michigan workers will not be eligible for E.B. when the unemployment rate is at its peak. A program that clearly was designed for just the type of situation Michigan is now experiencing will not be available to the jobless in this state.

TRADE READJUSTMENT ASSISTANCE

The Federal Trade Readjustment Assistance (TRA) progrm has been of major importance to Michigan workers. Since the impact of Chrysler petitions in late 1979, $1.173 billion have been paid to over 305,000 Michigan workers whose jobs have been adversely affected by foreign competition. The Omnibus Budget Reconciliation Act of 1981 has virtually eliminated the TRA program.

During last summer, the number of TRA claimants in Michigan averaged about 40,000, except for August which was considerably higher because of changeover layoffs. The TRA disbursements averaged about $24 million per month. We expect the TRA payments to decline through the October-December 1981 period.

For October, we estimate that $16.5 million in TRA benefits was paid to approximately 40,000 displaced workers. This pay-out remains high because many of the people who were collecting in October were receiving payments for weeks of unemployment prior to October first, which was covered under the old law. For November, the number of recipients should drop to about 10,000 with a total TRA distribution of less than $5 million.

By December nearly all the claimants who had some eligibility under the old law should be out of the system, and as a result, only 4,000 individuals will continue to be entitled to $2.5 million per month. Consequently, the December TRA benefits in Michigan will be only about 10 percent of what the program was prior to the statutory changes of October 1, 1981. As in the case of the E.B. program, only the skeleton remains.

TRUST FUND

Michigan is one of seventeen states that have been forced to borrow from the Federal Unemployment Account in order to keep their Trust Funds solvent. Since January 1980, Michigan has borrowed $1.035 billion and the forecasts are that by the end of 1982, our total debt will reach $1.5 billion. There are two penalties for states with outstanding loans: higher Federal Unemployment Taxes (FUTA) and required interest payments on loans secured after April 1, 1982.

Federal statute requires employers of indebted states to pay an automatic additional FUTA tax if a debt is outstanding on two consecutive January firsts and remains unpaid on November 10 of the second year. Each year the loan remains outstanding thereafter, employers in that state will be subject to escalating FUTA taxes which are applied to the outstanding loan balance and which are in effect until the loan is liquidated. Because of our 1980 borrowing, the entire outstanding loan must be fully repaid by November 10, 1982, if Michigan is to avoid escalating FUTA taxes.

We cannot foresee any reasonable economic scenario that would result in the total repayment of Michigan's outstanding loans by November 10, 1982. Therefore, it is fait accompli that Michigan employers will pay an additional 0.3 percent FUTA penalty in 1983. This tax will amount to an extra $18 per employee the first year, which cumulates at that rate each year until the loan is liquidated. Based on the current federal taxable wage base and assuming a $1.5 billion loan, the FUTA penalty tax will remain in effect for Michigan employers through 1989, when they will be paying an additional $126 in penalty taxes for each employee.

The new penalty to borrowing states requires the payment of interest on loans received on or after April 1, 1982. The two most important aspects of this provision are that the payment of the interest charged is generally due on September 30 of the same fiscal year the money was borrowed; and that the interest cannot be paid from the state trust funds. This means that either the MESC must impose a special employer tax to pay the interest charges or rely on the State of Michigan to subsidize the U.I. program from general revenues.

We estimate that in 1982, the amount of interest charged on new loans could range from $400,000 to $5 million depending on economic conditions and the interpretation of the new law. Prospectively, the charge could reach approximately $55 million per year by 1985. I maintain that these penalties, while intended to provide incentives to states to restore solvency, are unjustly punitive. A state such as Michigan which has been devastated as a result of back-to-back recessions, cannot simultaneously repay the current debt, restore solvency and pay interest penalties. Increasingly, employers are balking at high current and future U.I. costs and considering relocating to other states. To the extent that this happens, the employers "who are left behind" must carry the burden of Michigan's outstanding debt.

Because of concerns about Michigan's unemployment insurance tax rates, a number of studies have examined the various factors involved. We recently conducted a study which compared the 1980 levels of unemployment in Michigan to our neighboring states. The purpose of this analysis was to compare the actual benefit expenditures in each state with what those expenditures would have been if each state experienced Michigan's rate of insured unemployment. Projecting benefit payouts on that basis, the increases for 1980 would have ranged from a 61 percent increase in Ohio to a 175 percent increase in Minnesota. Because Michigan's U.I. program which is among the costliest is always compared to the Texas U.I. program (which is among the least expensive), we also calculated the effects of Michigan's level of unemployment on Texas. If someone suddenly discovered a substitute for oil and there was no longer any need for the workers employed by the oil industry, it would be possible that the Texas rate of unemployment might reach Michigan's levels. If this were the case, benefit expenditures in Texas would increase by 470 percent as compared to their 1980 levels. It is important to note that the benefit structure was kept the same for each state in this analysis, and that the only variable which was modified was the unemployment rate.

More interesting was the effect these higher levels of unemployment would have on each state's Trust Fund. Actual data for 1980 indicates that half of the states in our region had negative Trust Fund balances. According to our projections, if all of these states had experienced Michigan's 1980 unemployment rate, all but one of the states would have been forced to borrow. Extending these projections to the state of Texas, if Texas had Michigan's 1980 insured unemployment rate, instead of a positive Trust Fund balance of $265 million they would have had a debt of over $1 billion, as compared to Michigan's 1980 debt of $566 million. Stated differently, if Michigan had the 1980 I.U.R. of Texas not only would we have not borrowed any money in 1980, but also we would have ended the year with a positive $410 million in our Trust Fund.

Clearly, the differences in state U.I costs are primarily the result of the level of unemployment, and not the degree of benefit entitlement or so called liberal eligibility requirements. The new penalties for states who have to borrow to maintain their UI trust fund only exacerbates the fiscal difficulties caused by high localized unemployment.

IMPACT OF BUDGET CUTS ON MESC SERVICES

The first round of federal budget reductions required a 3 percent cut in administrative costs for unemployment insurance, 17 percent in employment service, and 12 percent reduction in WIN which resulted in the termination of 926 MESC employees. Also, we have had to close 54 locations throughout the state, which provided specialized and highly utilized services.

We have undertaken a number of other internal cost containment efforts in order to maintain service to the public. But cutting back on equipment and travel and other such items, while helpful, does not come close to offsetting the reductions required in personnel costs.

Of course with the announced intent to further reduce budget expenditures in fiscal year 1982 and with proposals for even sharper cuts in fiscal year 1983 and fiscal year 1984, we have been examining every phase of our budget. When the President proposed an additional 12 percent cut, we focussed on the impact a reduction of that magniture would have. I would like to share some of that with the committee to provide an indication of the impact of possible future budget cuts.

We estimate such a reduction would require the closing of at least 15 major permanent full service offices, such as Ann Arbor, Grand Rapids, Flint, and South Haven. Although no final decision has been made as yet as to which offices to close, this preliminary list of 15 offices currently serve 124,000 Job Service clients. The people who use those offices would not be deprived of service, but would have to travel to other offices, usually in other cities, to obtain service. Since there will be fewer people to serve them, obviously time spent to obtain service would lengthen and the time spent on each client would have to diminish. The additional costs to the clients is staggering. If you assume that each of the 124,000 clients made two trips to their local office and because of office closure now have to travel an additional 10 miles each way to their MESC office, the additional cost of travel alone for the unemployed is $656,000.

For the first time since the initiation of the program, a substantial reduction in administrative costs for the unemployment insurance program is being discussed. This would have direct impact on fraud prevention and delinquent tax collection efforts. It would also sharply impact the level of service to claimants. The length of time required to receive a first check would increase. Waiting time in branch offices would certainly rise. The amount of time that could be spent with each claimant to endure that they are looking for work and are eligible would have to diminish.

In Michigan, about 14,000 new employers will become liable this year. During the calendar year 1981, it is estimated that $6,900,000 in taxes will be collected from these new employers. Employer tax audits will produce approximately $2,000,000 from the discovery of accounting and interpretation errors made by employers. Just as there are some individuals who draw unemployment benefits unlawfully, there are employers that try to avoid paying unemployment insurance taxes. We expect to collect about $10,200,000 in calendar year 1981 from employers in this category. These three operations are expected to bring a total of about $19,100,000 to the Trust Fund for the year. If this effort is reduced by 12 percent, the staff cost saved will amount to about $500,000 while the revenue losses will be approximately $2,300,000.

In fiscal year 1981 the MESC placed 83,000 individuals despite the highest levels of unemployment in the country. Our goal for fiscal year 1982 is presently 79,000 placements. Although that may appear overly optimistic with a 17 percent staff reduction, we are counting on an improved productivity and prioritizing of service to reach that goal. However, if we have to absorb another 12 percent cut in Job Service activities, there is no way to maintain even that level of service.

We estimate that the added staff reduction would result in 9,500 less placements in fiscal year 1982. The number of individuals counseled would be reduced from 35,000 in fiscal year 1981 to 6,000 in fiscal year 1982. Although job counseling is a much needed support service in Michigan because of the long duration of unemployment and the need for many people to make drastic adjustments—new careers, new locations—to regain employment, it has a lower priority than placing those ready to work into jobs. Consequently, the counseling staff would be even more sharply reduced.

Research has shown that the use of the Employment Service reduces the duration of unemployment by conservatively estimated one week. Since the staff reductions would reduce placements by 14,000, the lost income to the unemployed would equal $4,450,000 (14,000 weeks times the state average weekly wage of $318.00). The savings in personnel costs brought about by the staff reduction would be $2,600,000.

As you can see, the proposed additional cuts do not result in real savings. For every dollar saved by reducing MESC personnel, two dollars are lost. It is not possible or realistic to assume that additional cuts of this proposed magnitude can be absorbed without directly proportional reductions in service.

The cuts that have been proposed would reduce the administrative funding for both ES and UI and would, in effect, reduce the service for which employers have specifically paid through their FUTA taxes. Employers, through their Federal Unemployment Tax Act (FUTA) taxes, pay for the administration of the Employment Service and Unemployment Insurance system that pays unemployment benefits promptly, efficiently, accurately and within the legal limits established by federal and state statutes. The Employment Service has always been designed to assist the jobless in finding new employment and providing employers with a convenient and readily accessible supply of labor. This labor exchange function serves both the unemployed and the employers while reducing UI benefit costs.

It is distressing to think that a system that has been as fraud-free and efficiently managed as the Unemployment Insurance program would be so carelessly thrown onto the chopping block. Although I understand it is the Administration's intent to reduce governmental costs wherever possible, I must submit that these types of changes should be carefully examined for their net impact. A program that has served and continues to serve its purpose efficiently and well should not be rendered ineffectual for some imaginary savings.

The Michigan Employment Security Commission has proven itself since its establishment during the depression years of the 1930's. Again and again during the 1970's the Agency has responded to one economic crisis after another as the auto industry goes through its basic restructuring. Several times the number of unemployed claimants has doubled or tripled in a matter of weeks and they have been paid on schedule. New programs such as TRA which affected thousands of people have been added, mastered and operated within the legislative mandate. In 1980, approximately one million people out of a labor force of four million came to the MESC for service. It is a service that has been relied upon by employees and employers for many years.

CONCLUSION

As an agency, we will continue to provide service to the people of Michigan to the extent that resources allow. But as you can see, unemployment in this state is already the highest in the country and is rising. The auto industry is undergoing an unprecedented restructuring which hopefully will result in its regaining a level of profitable operations. However, restructuring will inevitably result in fewer auto workers.

The total elimination or severe reduction in Extended Benefits and Trade Readjustment Assistance together with reductions in other income maintenance programs are surfacing at a time in which the unemployed have the greatest need. The MESC is faced with monumental budget reductions and the prospects of additional budget curtailments, which will only result in fewer resources to service the unemployed. As double digit unemployment continues, the cumulative impact of these circumstances is unquestionably severe.

The state is undertaking new initiatives to attract new industries to Michigan. Efforts to develop a high technology industrial base, robotics is one example, are already underway. One of Michigan's major resources is its skilled labor force which is a major need of many companies. However, for many of the jobless these skills have to be reoriented to meet the changing needs of technology. We need the means to develop a structured retraining of the unemployed. Without support in these efforts, the goal of revitalizing the economy and retraining the work force will be difficult to achieve.

I would be happy to answer any questions you may have.

Mr. GIBBONS. Mr. Taylor, have you made any inquiry as to why you are being cut so severely in your U.S. administrative funds?

Mr. TAYLOR. Our national association, we have had numerous meetings with Washington officials and time raised the question, why are these cuts being made, given the fact that 100 percent of the cost of administering the UI system, and 97 percent of the cost of running an employment service comes from the FUTA tax.

If employers are paying that, why are the cuts being made, and we don't get a good answer.

Mr. CONABLE. I come from New York, and I understand what you imply about the expense of Federal solutions for an area which generally has a high income.

I wonder if it would be a fair summary of your testimony to say the recently enacted cuts have not done severe harm in your administration?

Mr. DEMPSEY. Not in my area, sir.

Mr. CONABLE. You are concerned that further cuts would cause serious problems.

May I ask you if the State of Michigan is likely to use some of the additional money that will be left in Michigan by the reduced Federal tax burden to fill in the gaps to some extent?

Mr. DEMPSEY. I would think that is possible, but I think that is 2 or 3 years down the line.

Mr. CONABLE. So your concern is primarily a short-term concern about further cuts and the damage they might cause?

Mr. DEMPSEY. Yes.

Mr. CONABLE. Michigan is a high-income State, and will have substantial additional money left in the pockets of its people by the Federal tax reductions, and that becomes a new resource with which to deal with the social problems.

Here, where you have a close and direct concern, there is tremendous diversity across this country and frequently Federal solutions are an inefficient way to solve our problems.

Mr. DEMPSEY. Also, as more money is left with the individuals, whoever they are, and they spend more, we get an increase in State revenue too, so we automatically get more money that we can use to fill in the gaps.

We are a responsible State and we have historically filled in the gaps.

Two years ago we were doing it, and we are away from that now.

Mr. BAILEY. Mr. Chairman?

Mr. GIBBONS. Mr. Bailey.

Mr. BRODHEAD. Just a brief comment on the FUTA problem that you were discussing.

The chairman is not here, but there was a very intense fight during reconciliation and due to his efforts, by and large, we avoided a much worse disaster. If you had any idea what was prevented from being placed in a Senate proposal which would in turn have been placed in the law, believe me, you would look at the present situation and literally thank God.

The reason I would suspect, incidentally, that you are seeing a cutback in administrative funds is that when the administration did its budget calculations they looked at the costs, and figured unemployment compensation would have a negative revenue impact. Although we were successful in reconciliation and Senator Dole and Senator Long you were almost hit with a 14-percent annual rate interest, without time cushion borrowing which you now have under this proposal.

Mr. Dempsey, you say that the Reagan cuts in AFDC work disincentives have not appreciably affected your program. Yet considering the math, is it not true that a typical AFDC with three or four children, who makes $300 a month, is—because of the medical coverage and whatnot—is going to be better off not working?

Is that not a possibility?

Maybe I don't understand the system. If that is a true situation though, are they starting to show up in your figures?

Mr. DEMPSEY. They haven't shown up yet. This went into effect the first of October. The 4 months we are counting started the first of October, so they will not be coming out until sometime in March.

I don't think they are going to drop off immediately. They are going to try and make it and down the line is the question, you know.

I happen to believe that the vast majority of people on welfare want to work. I personally happen to believe that those who are there want to continue to work.

Taking away the $30 and a third is not going to discourage them, and they will continue in the system with their job and not come back on welfare.

Mr. BRODHEAD. I don't know, but I can't see how a mother can look at herself as being responsible and give up medical benefits she can't afford to purchase.

Mr. DEMPSEY. If she is working, there is a good chance she has medical benefits from where she is working.

We are not talking of people working part time.

The $30 and a third for anyone who gets it has to have been in effect for at least 4 months, and they have been working full time for 4 months, and there is also the fact, the medicaid card is extremely important, but that the AFDC family does not use it that much.

You divide the medicaid costs of New York State or my State by the population; you get to thousands of dollars, but the vast majority of that is hospitals and long-term care.

Mr. BRODHEAD. I respect you very much, but I think we disagree a little on that.

Mr. GIBBONS. Mr. Matsui.

Mr. MATSUI. Mr. Dempsey, you indicate that you really feel that people who are on welfare like to work.

The only problem is that if in fact you would be better off because of these additional medical benefits by not working than by working the obvious choice the individual would make would be not to work. Frankly that is the theory behind the Reagan supply side tax cuts—that the cut in marginal rates will give the individual more incentive to work resulting in greater productivity.

If it works with the person at the marginal tax rate, it seems it should certainly work with respect to that individual who is on welfare. A study by the University of Michigan that we had made available to us during the course of the tax and spending cut debate supported this thesis.

It indicated that there will be a number of people who are working and receiving welfare who would probably take the option of going on welfare fully given the aforementioned facts.

One other comment with respect to your comments about the tax cuts. Mr. Conable alluded to that by saying, since Michigan is a high income State, the tax cuts will help, and you people will end up using more of that income within your own State.

Probably through the mechanism that the mayor spoke about, where you will have to charge an additional tax in order to fund a local government. I don't know if you realize that the size of the tax cut is $550 billion over the next 6 years. You indicated you were able to bear the brunt of the $35 billion we made in the first reconciliation act, but you may not be able to make it in the future.

However, because of the size of that tax cut, Mr. Stockman may not have any place to go but to cut social programs. These cuts should impact you.

You can testify here and talk only about your area of expertise. If, however, you talk about the tax aspects so that you talk about the whole Reagan economic program, you have to consider the relationship between budget and tax cuts. I hope you are aware of that, and bear that in mind when you talk about the Reagan program in the future.

Mr. DEMPSEY. I am well aware of it.

Several things, insofar as Mr. Bailey's comments are concerned, if a person is on welfare getting the $30 and a third, gross income is around $900 a month.

OK now, take away the $30 and a third, if they quit the job and go back into the welfare place, they will end up with $380. I don't think the difference between $900 and $380 is so small that people will do it to get a medicaid card. That is one point.

As far as the other part is concerned, your comments about the amount of the tax reduction and so on, all I am saying is, I don't know.

The cruelest problem faced by my constituency is inflation. The State of Michigan, from the day I joined the Governor, for 11 years it gave ADC recipients an update. Three years ago that stopped. We are now below where we were 1 year ago.

We have cut benefits 8.5 percent in the last year. The average family on ADC in 1981 is living on about 60 percent of what they had in 1978.

To me the most important thing is to stop inflation.

Mr. MATSUI. Mr. Taylor will talk about the unemployment side. That has gone up rather significantly as well.

It is a juggling act that both of you have to work together on, but you are making the presumption that the Reagan economic program is going to solve the issue of inflation.

Mr. DEMPSEY. No, sir, I am not. I am hoping it will.

Mr. MATSUI. I have no further questions.

Chairman ROSTENKOWSKI. Mr. Wolpe.

Mr. WOLPE. It is good to have you back here.

You referred earlier to the food stamp cuts and the anticipated impact of further alteration in the application of food stamps to the public assistance formula. I want to know the impact of the food stamp cuts up to this point in the State of Michigan.

It has been said that the cuts have only been directed at the elimination of fraud and abuse.

Can you give us some numbers in terms of precisely who and how many people have been affected by the food stamp cuts and whether you feel that those are simply, whoever has been affected, should not have properly been on the food stamps?

Mr. DEMPSEY. The question of fraud and abuse does not even come up.

Nothing has been done to control fraud and abuse. All the savings that have been made have been in effect program savings.

The biggest thing that happened was lowering the gross eligibility level to 130 percent of poverty.

In Michigan we have 380,000 families on food stamps and as of the first of October about 28,000 lost their stamps, so 28,000 families out of 380,000 lost food stamp benefits.

The way the procedure was structured, in effect you cut off the top.

It used to be with the income disregards and work experiences and so on, you could collect food stamps if you had as much gross income as perhaps 150 percent of poverty.

Now there is an absolute 130 percent and you are out.

It discriminates against large families and so on. I am not saying it is a good thing, but it is better than some of the things that were kicked around.

The notion of deducting school lunches was ridiculous to us.

I prefer 130 percent of poverty to deducting school lunches.

Mr. WOLPE. I am trying to understand the thrust of your testimony.

If you say what has happened is not as bad as some alternatives that have been discussed, that may well be.

I thought I heard you say at one point that there really has been no substantive impact——

Mr. DEMPSEY. I said no major substantive impact.

Mr. WOLPE. Are you saying those 28,000 people considered on any kind of social equity scale really ought not to have been on there in the first instance?

Mr. DEMPSEY. That was not my judgment. If you are going to cut off people, you should cut off people most able to bear the cut, and in the food stamp area that is what has happened so far.

It does not mean that will continue to happen.

Mr. WOLPE. Do we have any data as to senior citizens and how they have been impacted up to this point by food stamp cuts?

Mr. DEMPSEY. No, my impression is they would not be impacted at all because they are all below 130 percent of poverty.

Chairman ROSTENKOWSKI. Any further questions?

Mr. HERTEL. It is ironic that you are both here together at the same table.

Mr. Taylor tells us how bad it is, and we talk to Mr. Dempsey and you talk about those very people that are added to the unemployment losing some chance for some relief through the cuts from the Federal Government and social services.

I have to ask, since the Governor has not submitted a statement today, or he is not here, and I thank you for your long service—I understand your difficult position.

As I receive countless letters from the heads of the different departments in State government, mental health, social services, natural resources, always specifically opposing something in the administration program saying that they can't live with it, it can't be done, it will cost more money in the long run, that is a summary of all of these letters, why at the same time, when these people work for and represent the Governor and are appointed by him, why the Governor does not criticize the administration's proposal, why the Governor does not speak up and say what he thinks should be done for the State of Michigan in relationship to the Federal Government.

I ask you because you are the highest ranking person here today, Mr. Dempsey.

Mr. DEMPSEY. Your statement, Mr. Hertel, implies something that I don't think is true.

You are really asking why the Governor does not speak out publicly and loudly and join the chorus of opposition.

He has spoken, and he speaks quietly. That is a matter of style. There are Governors who dash to the TV cameras, and there are others that work quietly.

Chairman ROSTENKOWSKI. There are some Congressmen that do that too.

Mr. DEMPSEY. I gather that.

My basic point is that the Governor by and large, and he has said this many, many times, is concerned that the cuts may go too far, is concerned that they may not work, but is equally concerned over what has happened to this country in the last 15, 20 years.

A lot of these gentlemen are new to a recession, and a national recession began in the second quarter or third quarter of 1981, well, we in Michigan have been in a recession for 2½ to 3 years.

We have been in a depression for over 1 year.

Bill Milliken has been trying to use his influence with the President.

Mr. HERTEL. When things are this bad, and when Michigan is hurt harder than any other State, there is a responsibility to speak out publicly.

Mr. DEMPSEY. I think he has.

Mr. GIBBONS. Mr. Chairman, the entire Michigan delegation, particularly Mr. Brodhead, have done an excellent job of informing us in the Capitol, and in informing us of welfare and unemployment problems.

I want to commend them for their very fine job.

Mr. CONABLE. Mr. Chairman, I have a statement which has been handed to me by Gerald Rosen.

I understand that there is no room for additional witnesses here, but I would like to ask that his statement be put in the record.

Chairman ROSTENKOWSKI. The Chair hears no objection.

The statement will be included in the record.

[The statement follows:]

STATEMENT OF GERALD E. ROSEN, DETROIT, MICH.

I wish to thank the Members and staff of the House Ways and Means Committee for the opportunity to submit written testimony for the hearing record on these important issues.

Before moving to the substantive portions of my testimony, I must express certain misgivings I have about the nature and timing of the series of field hearings being conducted by the Ways and Means Committee, of which today's session in Detroit is a part. First, I would observe that it seems to me rather premature for this Committee to be holding field hearings on the impact of an economic program that has been in place only two months. After all, the economic course of action proposed by the Reagan Administration and adopted by the majority of the Congress—although not supported by many Majority Party Members of this Committee—represents an effort to stabilize and revitalize an economy savaged by almost two decades of undisciplined, herky-jerky economic mismanagement presided over by the Democratic Congressional majority.

Frankly, I find it rather ironic that the Democratic majority of this Committee—many Members of which for so long have clung tenaciously to the failed policies which have brought us economic stagnation, inflation and over-taxation—is now travelling the land (at great cost to taxpayer!) to determine the impact of the new economic programs only 68 days after the implementation of only a portion of those programs. One might well ask why the Majority Members of the Committee did not feel compelled to hold field hearings last year when we were experiencing productivity-stifling 21 percent interest rates, 16 percent inflation and still 7 percent unemployment, with considerably higher numbers here in the Detroit area.

Indeed, it would be hard to overlook the partisan nature of these hearings: I refuse to accept as coincidence the fact that 4 of the 6 field hearings scheduled by the Committee Majority are in the home districts of Majority Members of the Committee.

More importantly, perhaps, I am particularly concerned that these hearings—coupled with the attendant publicity and constant criticisms of the new program by its opponents—could have a self-fulfilling effect by undermining public confidence in the program and, thereby, contribute to the realization of the most dire predictions of its critics before the program has had a fair opportunity to prove (or disprove) its viability.

One final point about the hearings themselves: It would seem that in these difficult economic times when the availability of public funds is at a premium, the Committee Majority should examine its own spending policies. I am given to understand that today's hearings in Detroit and tomorrow's hearings in Indianapolis will cost taxpayers in the neighborhood of $25,000. When coupled with the costs of the other four field hearings—two of which are on the West Coast—taxpayers will end up footing a rather substantial bill for what should, perhaps, more properly be picked up by the Democratic National Committee.

But, despite these misgivings and since the Committee is in Detroit today, I would like to share some of my own thoughts about the economy and the new economic program recently enacted by the Congress. Initially, I believe we must put in perspective the current economic climate because in the gloom and doom figures we now are reading about, it is easy to lose sight of some encouraging signs.

First, it should be noted that last year inflation rates were soaring beyond the 15 percent mark. Today, inflation is well under 10 percent (on an annualized basis) and falling. Indeed, there is a growing view among economists that we are on the road to a 7 percent inflation rate before the end of next year. As Moody's Bond Service recently observed, "there is now a real possibility that inflation will be brought under control and the economy redirected along the proper path at the same time."

We are witnessing a similar trend in interest rates: A year ago, interest rates had ballooned to 21 percent—today, they are at 15½ percent and moving down.

The stock market, which earlier in the year was a source of some concern, is now rebounding nicely, and the bond market has made an excellent recovery. Just as encouragingly, the dollar remains strong overseas.

Further, the seeds of a strong recovery are now in place. The incentives for personal saving and business capital formation—the necessary prerequisites to investment and job creation—have begun to slow the flow of funds away from the savings and loan institutions. For example, the changes in retirement accounts (IRAs) could bring billions of dollars into the investment market after the first of the year. Similarly, consumer buying power—boosted by tax cuts and falling prices—is on the rise. And, when the next round of tax cuts kicks in next July, I expect an even greater impetus toward purchasing.

However, lest I be branded as promulgating Hooveresque ("Prosperity is just around the corner") optimism, I hasten to add that—as a resident of the Detroit area—I am hardly blind to the pain of the realities of today's recessionary economy. Even the most enthusiastic economic forecasts for the future mean little to the autoworker standing in an unemployment line rather than an assembly line. Although we must bear in mind that the current problems of Michigan's economy were not caused by budget cuts and tax cuts—but rather by soaring interest and inflation rates and overly zealous federal and state regulations—this is not much consolation to workers without a job and a paycheck.

So, the question properly put is: What do we do between now and time of full recovery? My first suggestion is that the Congress and the Administration not indulge a panicked over-reaction and jerk the economy off the course that has been established. We can only achieve the goals of a stable, non-inflationary economy with healthy growth if we maintain a stable course toward our goals for a sustained period of time. Too often in the past, the economy has been ratcheted from one economic program to another at the first sign of trouble.

The economic problems we are experiencing today are the result of years of "quick fix" economic policies—these problems will not be cured in two months. And, they will not be cured at all if we revert to the band-aid approaches of the past.

Secondly, the economic pain of the current recession and budget cuts must be spread as equally as possible around the country—and around the federal budget itself. Perhaps one of the greatest threats to the success of our new program is the perception of unfairness in parts of the program, because this perception, fostered by opponents of the program, allows critics to deflect the focus of the economic debate from their own inability to come up with viable alternatives.

Therefore, we must insure two things in the next round of budget cuts: That the cuts impact equally all regions of the country—this means cutting some water projects in the West, as well as social programs that help those in industrialized states keep their heads above water—and that the cuts be made from other heretofore sacrosanct budget areas.

Both of these points bring us to the Pentagon.

First, I believe further cuts must be made in the Defense budget itself. Although I am in full agreement with the Administration's desire to greatly strengthen our military forces and increase defense spending, I do not believe it is necessary to go quite as far as the Administration has proposed. It is, unfortunately, a reality that we live in times of extremely limited federal resources, and the Pentagon budget provides one of the few areas in which there is still room to maneuver—I find it hard to believe that the Pentagon could be the only government agency immune to waste, inefficiency and belt-tightening.

Secondly, I would propose that a certain percentage of the newly enacted defense contract dollars be targeted to areas such as Detroit which have a wealth of technological resources and skilled manpower to perform the work, but which have been hardest hit by our economic problems. I believe that it is important to use these new defense dollars not only to beef up our defense capability, but also to buttress the home front. Just as Detroit was the arsenal of Democracy in the boom days, it can—with its strong base of research and technological expertise and large pool of skilled machinists and tradespeople—continue to play a vital role in our Nation's defense.

Finally, we must face another unpleasant reality: the inexorable rise in entitlement program spending must be slowed. We cannot continue to allow these programs to increase almost twice as fast as the working man's wages as they have over the past few years. The automatic increases in these "uncontrollable" areas of the budget were, perhaps, tolerable when the inflation rate was 2 or 3 percent—however, with the double-digit rates of inflation of the recent years, we can no longer afford these increases that have been a major contributing factor in the alarmingly high budget deficits we are now witnessing.

I believe Americans are willing to make sacrifices—but they must believe the sacrifices to be equitable. The new Economic Recovery Program provides us with a great opportunity to return our economy to the principles that made it the most productive in the world at one time—but, that program will only have an opportunity to work if people believe it is fair.

Chairman ROSTENKOWSKI. Welcome, Your Excellency. It is nice to be in your Archdiocese.

The Most Reverend Edmund Szoka.

Identify yourself, and you may proceed.

STATEMENT OF THE MOST REVEREND EDMUND C. SZOKA, ARCHBISHOP OF DETROIT

Archbishop SZOKA. I am very happy to welcome you to Detroit and happy that you have come.

I am Edmund C. Szoka, Roman Catholic Archbishop of Detroit, testifying on behalf of the people of the Catholic Church in the six counties of southeastern Michigan.

These people number about 1½ million.

In March of this year, the U.S. Catholic Conference sent a letter to all Members of Congress strongly urging opposition to the large-scale budget cuts in domestic social programs for the poor.

In that letter, Bishop Thomas C. Kelly stated the position of the Catholic Church:

> Our concern in this regard stems from our belief in the sanctity and dignity of all human beings, and from our special commitment to the poor. An essential element of our Catholic tradition of moral teaching is the belief that the dignity of all persons is protected by certain basic rights. Among these are food, housing, employment, health care, education and necessary social services. These basic necessities are matters of right, not of privilege or choice. Therefore, the government has the ultimate responsibility, a moral responsibility, to see that these needs are met.

Throughout the day, you have heard and will hear about the dire economic circumstance that confronts us. Probably no area of these United States has experienced the deep economic recession as has Michigan and particularly its southeastern metropolitan communities. I would, therefore, like to address myself to current information about human services provided by parishes and voluntary organizations of the archdiocese, as well as reports from our Catholic social service agencies in the six counties of this archdiocese.

The number of people seeking food has increased dramatically. In just one eastside location, for the last 3 months of the summer, June, July, and August, over 8,000 breakfasts, 38,000 dinners have been served, and the amount of food provided families has doubled since last year.

At this Capuchin Community Center, known since the Great Depression as the "soup kitchen," close to 1,000 people a day are being served. Other places like the Catholic Worker's Manna House, St. Leo's Soup Kitchen and St. Patrick's Food Center, have all experienced similar increases, with the greatest demand occurring from the middle to the end of the month when diminishing assistance checks will not stretch to purchase inflation-priced foods.

Father Lloyd, of the Capuchin Center, describes the situation in a letter dated December 1, 1981:

> The poor are legion and their stories tear at your insides. There is Janet, who is pregnant, alone and broke. Her meager diet is affecting both her health and the health of her unborn child, and a computer error cuts off her food stamps. John, one of our seniors, was hospitalized for over a month and so his general assistance was cut off. He has no other resources. Angela desperately needs a crib and clothing for her two-month-old daughter and her social worker sent her here because they cannot help her.

Father Lloyd continues:

> The number of families seeking help is double what it was last summer. I really get frightened when I think what this coming winter might bring.

Father Lloyd's experiences are not unlike those of the parish conferences of the St. Vincent de Paul Society, where the increased number of requests is phenomenal. A parish in North Macomb County had an increase in 1 year of 30 percent, from 168 to 214, in the number of people it served with food, housing, and basic utilities. Another North Macomb parish registered a 240 percent increase in 1 year. A parish in Detroit went from 10 cases to 179 cases in 1 year. Another Detroit parish registered a 300 percent increase in cases. The story is similar in all 350 parishes, regardless of county or location. The St. Vincent de Paul Society estimates its 1981 expenditures as: $185,000 for food; $25,000 for clothing; $32,000 for utility bills; $45,000 for housing. These dollar figures represent an increase of 70 percent over the past 2 years. None of these figures include parish contributions made for the same purposes, or donated canned goods that St. Vincent de Paul Society also distributes.

Circumstances presented at the professional service level are equally compelling. Catholic Social Service Agencies offer counseling and other professional services to anyone with personal or family problems. Each of the six counties is served by a separate agency. Each agency, though, reports similar occurrences. Unemployed clients have increased 10 percent in Macomb County; 41 percent of Oakland County's clientele are unable to pay any fees; 50 percent of Lapeer's clients have marginal incomes or no income at all because of unemployment. In Wayne County Catholic Social Services, of 9,000 cases in the family division alone, more than 30 percent are unemployed. Of cases referred to the main office in Detroit, a minimum of 60 percent cannot be handled by the agency because there is no resource to handle the direct service needed. Referrals are made by utility companies, by the department of social services, and by the neighborhood services department. Of applications to become foster parents, fully 10 percent are inappropriate—from people trying to supplement their low income. They are from people trying to supplement their own low income.

Contrary to current media reports, our agencies report very few people moving out of State—in hardest hit Macomb County, less than 3 percent of our clients have decided to seek a new situation in other States. This chronic unemployment brings to families a stress demonstrated in violent ways.

An increase in substance abuse—for the first time in its history at Oakland County Catholic Social Services, substance abuse counseling is up over family counseling, requiring a transfer of staff from one unit to another.

An increase in domestic violence—in rural Lapeer County, Catholic Social Services reports a 72-percent increase in child abuse in this past year. Funding for shelters in the tri-county area has been cut, leaving no recourse for abused women and children. State mental health agencies, because of budget cuts, can take only the most acute cases; everyone else is being referred to private agencies, which cannot handle the load. Our agencies and their staff are at the end of their resources; staff at some agencies have increased their work time without additional pay.

With sources for funds diminishing at all levels—Federal, State, and county programs—service capability is being cut at the very time that human needs are increasing dramatically. The agencies caution us, moreover, that the full impact of the economic crisis is still to come—in the new year, when budget cuts become effective. The holiday season underscores the severity of the economic crisis for this community of people. Nearly every Catholic Social Service agency reports at least a 100-percent increase in requests for material assistance. Wayne County Catholic Social Services alone will handle over 1,000 cases. While most organizations will be able to meet the request, if donations continue at the present rate, Christmas comes only once a year. The needs presently felt will continue for many months, if not years.

Much has changed since the Great Depression of 50 years ago, not all of it for the better. The resources of the extended family helped many people to survive; agencies report this is no longer true. There is almost no neighborhood or community support for unemployed families.

The voluntary sector, the people who contribute to the United Fund which supports private agencies like Catholic Social Services, are now themselves unemployed. They either did not make a pledge, or will not be able to honor the pledge they have made.

The church is fully committed to continue its gospel mandate of outreach to the poor. Nevertheless, it is a matter of strict moral justice that the church shall also bend its effort to challenge and to encourage all sectors of human society to assume the same responsibility in proportion to their resources.

The U.S. Government, in the public sector, has the ultimate responsibility for guaranteeing human rights constitutionally described as establishing justice, insuring domestic tranquillity and promoting the general welfare. It is this equitable partnership that we all seek.

The Catholic Church and the Archdiocese of Detroit pledges itself to do all it can to help the poor in our midst but it is becoming increasingly clear that our parishes and organizations will not be able to meet the demand alone.

Thank you, Mr. Chairman.

Chairman **Rostenkowski**. Thank you, Your Excellency.

You don't paint a pretty picture.

I am sure, as was observed earlier today, the unemployment picture painted here in Detroit, Mich., is going to spread, and I certainly hope, and I say this with all sincerity, I really wish that the economic program of this administration works.

From what we have heard thus far, there is a great doubt in most people's minds.

It has been said in testimony that we took in our committee in Washington that the private sector would pick up the slack, that there would be an enthusiastic support.

You don't see that, or do you?

Archbishop **Szoka**. I see a great deal of enthusiastic support, I don't doubt that.

The point is, it is not enough. It is not enough.

I could speak to you in theoretical terms or practical terms and I tried to present today the reality that we are experiencing at this moment.

This is not theory, but it is reality.

We are planning further efforts, and, as I pledge, we will do all we can, but it is clear to us that we will not be able to do this alone, or in conjunction with other charitable institutions.

The problem is too immense, too large.

Chairman **Rostenkowski**. Mr. Brodhead?

Mr. **Brodhead**. Thank you, Mr. Chairman.

Archbishop, I want to be very clear and make sure that I am understanding what you are saying.

You are saying that despite the increased efforts of the archdiocese and other private organizations, and despite the generosity of the people who contribute to the charities that the church maintains, that without a greater effort by the Federal Government, the problems of the poor cannot be adequately addressed.

Is that what you are saying?

Archbishop **Szoka**. That is correct. That is our judgment on the basis of our experience.

Mr. **Brodhead**. Is your reading then of what has happened to date this year, that the reductions in governmental programs to assist the poor have exacerbated the extent of poverty in this community?

Archbishop **Szoka**. Yes; and I believe what we are experiencing at the moment is due mainly to unemployment.

Our own agencies, of course, have been affected by cutbacks in the CETA program, but I think the main impact has been unemployment, and our point is that we are already being, our resources are being severely taxed to help the poor, and in this coming year, as the budget cuts really begin to take effect, it will become much worse.

We have a difficult situation now, even though many of the budget cuts in the assistance area have not yet taken effect.

Chairman **Rostenkowski**. Mr. Guarini.

Mr. **Guarini**. I want to ask whether or not there has been any increase in business corporations getting together to try to ameliorate the situation?

Have there been any meetings or any efforts made by the business community to try to address these problems of volunteerism?

Archbishop **Szoka**. I can't answer that question. I don't really know.

I know what our efforts have been, and to my knowledge neither I nor our office has been approached about such a meeting, but there may have been some.

Mr. **Conable**. Will the gentleman yield?

Your Excellency, I chair a committee of the President's Task Force on Private Sector Initiatives, and we have just begun to focus on that.

There will be an effort to try to reduce the impediments to the private sector.

One of the obvious difficulties is a mindset that has come to reject all things in Government in the past, and that has reduced our sense of development to some extent, as long as we had the Government as a surrogate.

I wouldn't want to overstate that, and it is obvious that the Federal Government does have a partnership role in the process of alleviating this. I am grateful that there is a private sector represented by your great church and by all the other Christian impulses that activate our American community.

If you have any views of specific impediments to greater effort on the part of the private sector to try to be sure that people don't fall between the cracks and the real world at a time of cutbacks, I hope you will let us know.

Archbishop **Szoka**. I would like to respond to that very briefly, that I think there is a philosophy of government which has to be operative in the United States. I am obviously not advocating communistic or socialistic principles.

I believe that the Government must try to create a climate in which private enterprise can flourish, in which there can be employment.

I certainly support that approach.

However, we can never forget that in this country we are a community of people and there are issues of social justice, and the fact is that we simply cannot, the Government simply cannot say that, well, we will let the private sector take care of the poor.

The Government can say that if the private sector is able to do so, but if it is not, it is clearly a social responsibility of this community of citizens to provide for the poor.

I simply want to make that very clear.

Mr. CONABLE. I quite agree with the point you make, the Federal Government does have a very important role and a substantial responsibility remains to consider cutbacks. We all regret the necessity for the extent to which they are required, but there remains a very substantial Government program and will.

The proper balance between Government and private sector remains the goal that I think we have got to see.

Archbishop SZOKA. I would certainly agree with that, but at the moment the evidence does not seem to be convincing that we have reached that balance.

Chairman ROSTENKOWSKI. Thank you, Your Excellency.

We do appreciate your participation.

The committee will stand in recess and will resume its sitting at 2:15 p.m.

[Whereupon, at 1 p.m., the committee recessed, to reconvene at 2:15 p.m.]

Chairman ROSTENKOWSKI. The committee will come to order.

Mayor Bovitz; Commissioner Steiner, Mr. Little, Mr. Vermeer. Welcome to the committee, gentlemen.

If you will render your testimony in the order in which the Chair asked you to approach the witness stand, the committee will appreciate it.

Mr. Mayor, you may begin.

STATEMENT OF HON. ROBERT BOVITZ, MAYOR OF TRENTON, MICH., AND TREASURER, DOWNRIVER COMMUNITY CONFERENCE

Mr. BOVITZ. Thank you, Mr. Chairman. Thank you for coming to Detroit.

Mr. Chairman and members of the committee, I am Robert Bovitz, mayor of Trenton, Mich., and treasurer of the Downriver Community Conference, a cooperative organization of the governments of 14 cities and townships along the Detroit River in south Wayne County.

I speak to you today in the area of my expertise, my constituents and my community. What I say about them is indeed a composite of the constituents and communities that make up the DCC area.

My constituents are the basic working Americans. They are skilled, unskilled, retailers, service providers and professionals. They have worked hard and regularly all their lives. They own their own homes; they and the mortgage company.

In our local banks they maintain savings accounts to put their kids through college or for retirement plans.

They belong to a church, several community organizations, and they are generous to local charities and communities.

They scream at me when I pay the police too much, at the school board when they raise the teachers' salaries. They complain about the condition of the roads, the cost of water, and any zoning changes in their neighborhoods.

They also go to the polls and vote millages for those same schools and for our community needs. They pitch in, uncomplaining, when the community has a storm, snow, or flooding emergency.

They are the basic source of the Federal and State revenue known as the income tax. They are the basic source of the local income known as the property tax. When you told them to save energy, they insulated, turned off lights, cut wood and dialed down.

They are proud of their communities, their State and their country. Their plans for work and retirement are firm. They know who they are and where they are going.

Or they did.

Beginning in May 1980, with the closing of four major industries, 5,000 of these constituents will have been abruptly and permanently unemployed.

This morning we had another meeting with industry with another financial problem, McLouth Steel, which is in our own city; the city of Trenton.

The major industries remaining have reduced their labor force by 20 percent. Eventually, with each of these jobs goes two or three retail and service jobs. DCC represents 270,000 people living in 100,000 homes. Today 14,000 of those homes are devastated. They have become the new poor. My constituents feel betrayed by the companies to which they sincerely believe they have given their sweat, their loyalty, their all.

My constituents feel betrayed by their country. They have followed all the rules of the American dream. They have worked, paid their bills and taxes, voted, and lived within our laws. Suddenly not only the rug, but the whole house has been pulled out from under them.

They are no longer the producer. They scorn welfare as they have all their lives. They know that the replacement job is not out there. They feel scared, adrift, naked and alone.

How has my community responded to their needs? Through DCC, we started in May 1980 to prepare for the obvious coming problems. The 14 communities of DCC have long experience in working together on problems. Since 1967, our mayors and supervisors have been meeting monthly to downsize the cost and the trauma of common problems by sharing, by joint effort, and by creativity.

Our efforts to meet the developing crisis started immediately. To start resolving the long-range problem, we formed an economic development task force, made up of all segments of the business and government community. Based on our joint assessment, we have established seven programs.

Working with our Southern Wayne County Chamber of Commerce, we have two programs which seek to correct current deterrents to a good business climate in our DCC area.

The first consists of intense and insistent lobbying to get changes in State legislation which will make our whole State more competitive.

The second is the establishment of business retention teams to visit all industry and large commerce in the hopes of preventing any further closings.

The other five programs are attempts to attract new and diversified business.

First, there is a common marketing kit and program selling the assets of the DCC area.

Second, we are hiring a full-time industrial realtor who will match available industrial sites with potential customers, maintaining the necessary data, seeking out possible clients, and assisting with location problems.

Third is a joint approach to the hazardous waste problem with regional technological advice, siting evaluation and citizens' committee.

Fourth is the support of those development plans which individual communities have started. Chief among these is Frenchman's Cove, a river-oriented development, assisted and supported by the Federal Regional Council.

Fifth is our Business Assistance Center, which works with small and medium-sized companies to help them win Federal civilian and defense contracts. These are companies which are reporting to us that they are operating at 50 to 70 percent of capacity. We have developed a program to help them break into the Federal procurement system.

Our efforts to meet the needs of our new poor constituent also started immediately. We applied for, received, and implemented a national demonstration program of the U.S. Department of Labor for employment and retraining.

We thank you for your efforts, especially Congressman Dingell, in getting that grant for us.

The grant is designed to assist workers displaced through the four major industry closings.

Not all of these workers are a part of our constituency. Many of them are Detroiters and they also live all over the metropolitan area.

Basically the project allows us to help these workers find new careers in growth occupations. It includes retraining and reeducation given through our community colleges, private organizations and employers. Workers displaced from other job sources have been helped through our on-the-job training program which pays moneys to private employers during their training period.

As a public official, I have been through a lot of plans and a lot of things, but when I can see people getting back to work, getting them trained and off the streets and back on the job, that means something to me as a public official and if we can do the same for the remaining 14,000 people, we have done something.

Last year, through the national demonstration project, we put 414, or almost two-thirds of the persons in the program, back to work. Not at quite the wage they had earned before, but pretty close. The average $7.40 per hour they are earning now compared to the previous average of about $9.50 per hour shows that people can start over again.

They are back to work and they are at a level where they are not competing with young people just entering the job market at minimum wages. And almost 90 percent of them are working here. They did not have to leave their home, friends, churches and schools.

These workers contact us through our unemployment hot line. For the last 17 months we have been getting an average of 30-plus calls each work day. Of 2,015 calls last month, 39 percent needed jobs or training. The remaining 60 percent dealt with all the other problems that accompany unemployment.

As part of our grant program, we have set up a referral data bank which includes 2,000 DCC and metropolitan area social services agencies and the particular services each offers.

We question our hot line callers in detail about their problems and assist them in finding the correct agency for relief. Usually we give them three sources. We also follow up all our calls to make sure they have been helped.

Drug problems have not increased, but alcohol and mental health problems are increasing daily. One of our spouse abuse programs, first step, reports a steady increase in this problem. Our DCC area had 249 contacts at first step last year, with 271 this year through November and the Christmas season yet to come. The fact that the husbands are at home more increases the frequency and severity of abuse.

We are a screening service in the DCC area for the metropolitan health service referral network.

Providers are serving the unemployed for free or at reduced charges. Every hospital in the DCC area and 47 doctors are part of this. The head of our State department of health is organizing the State's pharmaceutical firms to provide free drugs. Our county health department is giving free pre-employment physicals.

There are people coming together.

DCC has served as a catalyst in the consolidation of all social service agencies in the DCC area. As demands increase and funding is cut, they have all recognized the wisdom of cutting administrative costs by sharing, by joint effort, and by creativity.

On an individual basis, our communities are 1 year into a possible economic shutdown. Our local revenue has come from property taxes, State-shared revenues, Federal revenue sharing, grants, and CETA.

A large portion of CETA, of course, is gone, and because our State of Michigan is in trouble, we have had cuts this year in State-shared revenues with much deeper cuts programed for the next year.

Most of the grant programs have expired. Because the plight of the 14,000 unemployed pervades the area and because all our constituents feel overtaxed, an increase in local property tax is not an option. If you take away Federal revenue sharing, it will be the death blow to stable local economy.

We are down to the providing of only essential and mandatory services. If revenues continue to drop, responsible maintenance of expensive facilities will be the next to go. This includes roads and bridges, sewer and water facilities, buildings and vehicles.

As Washington and Lansing abandon programs, we are not unwilling to take care of our own people. In fact, we think we can do it better and cheaper with the addition of some discretionary funding, which we need desperately.

For example, our efforts in this crisis have been extensive, caring and preserving of dignity, but we are limited in funding, so we have reached only 1,300 when 14,000 are in need.

My constituents have changed. Their pride took a beating when they had to stand in line for an unemployment check. It gets a knockout blow when they have to go on welfare. If they want to try to move where the jobs are, they are trapped because they cannot sell their homes while the interest rate is high. Their kids are not going to college. Our State universities report substantial drops in enrollment. Their kids cannot find even part-time jobs.

They no longer produce revenue for church contributions, the United Foundation, income tax, sales tax, retail sales.

As they run out of employment funds and savings, home foreclosure looms. An officer in our largest savings and loan States the evidence is emerging of future foreclosures staved off until now by subpay, unemployment, and TRA.

National policies in every field, economics, trade, defense, regulatory procedures, could be better coordinated and not at war with each other. They must improve and they must focus on my constituents.

They do not want a handout. They want a job. They want their dignity and self-confidence back.

They are my community. They are America.

The Downriver Community Conference thanks you for the invitation to appear. I will be happy to try to answer any questions you might have.

Chairman **Rostenkowski**. Thank you, Mr. Mayor.

Commissioner Steiner.

STATEMENT OF ERVIN A. STEINER, COMMISSIONER, WAYNE COUNTY

Mr. **Steiner**. Thank you. If I had a voice like that, I would run for President.

I am going to deviate from my prepared statement and I feel that I would like to answer some of the questions.

First, I would like to thank you very much for inviting me. I would like to tell you my background.

No. 1, I have been reelected six times. I am a Republican. I feel very honored. I was named chairman to ways and means by a Democrat, which isn't done very often. We get along very well, so I want to say to you that here in Wayne County, it is almost nonpartisan.

I am a Republican through and through—don't get me wrong—but we go hand in hand, and this is what I really want to say to you, but I think there are some statements that were made that cannot go without being answered.

This morning, Representative Gibbons asked the question about the Free Press report of the 50-percent absenteeism. It is too bad they didn't tell Representative Gibbons that the directors of the regions also have chauffeurs and cars and thanks to our present administrator, they voted on it and voted that out.

They have streamlined that and we are getting a better educational system in Detroit.

We are trying and these are some of the things they don't tell the people who are paying for it.

I read the same article, so that everybody plays innocent like they don't know it is there, but it was in the newspaper, and it is true or not, you and I read the same article.

Can you believe all the regional directors had chauffeurs and cars?

That is another thing. We must streamline in Wayne County and in Michigan.

A lot of things have been said that have to be taken care of.

Mr. Crockett said that there was 65 percent of the unemployment in the teenagers in his district.

This is absolutely true.

I wouldn't dispute that for a second.

I am not going to take issue on this with you, but if the minimum wage is $3.35 and we have unemployment of experienced secretaries that we can hire for $4.50 and I happen to be a businessman also, what would you do?

Would you take a high school girl that can't even spell the name of the school she is going to, or an experienced secretary at $1 more an hour?

I am going to offer you a solution that was in there, and you do what you want on it. It is up to you.

This is only a suggestion. I used to hire high school people at $1.50 an hour. I had six of them. They are now secretaries to attorneys, and one is a secretary to a judge.

One has a real good job at General Motors, but we trained them as businessmen.

They came in and worked for 2 years for us while they were going to high school and went in the morning, and come in in the afternoon. We got them at a reduced rate, but we trained them.

Now, at $3.35, there is no way we are going to train them.

We cannot take them out and put them in the job market.

It is something for you. I am just asking you to think about it.

I am not going to tell you anything to do because you people have much more knowledge than I do.

They talk about social services, and the older people going broke in Michigan.

I won't even take issue with that because it is not the Government that is making them broke.

You ask these older people if they can afford to pay the utilities in Michigan. Ask them if they can pay the utilities.

That is what is breaking them, and yet our State, and God bless it, I am sticking my foot in it, but nobody ever accused Commissioner Steiner of not speaking his mind. The State legislature, with the Public Service, let them raise it. Boy, they raise it one right after the other and Mayor Coleman Young sat here and they are going to raise the water rates 24 percent next year in July.

They are going to pay it, but nobody says anything about that.

If you people can throw more money at them, you are going to just pay it.

If that is the answer, just go back to Washington and keep writing checks. That is all you have to do but start looking at the problem.

If money is the answer, you got it made.

You can quit right now and get on a plane tonight and go home and you got it made because all you have to do is sign checks.

That is all you have to do. That is not the answer to the problem.

The idea is, one man once said, "Don't give them fish, give them a fishing rod and teach them how to fish," and that is what I advocate.

I think he was a southerner, too.

Utilities, they make you put up a deposit, big deal. They give you 6 percent on your money unsecured.

I think it should be 3 percent over prime. That will make them cure it in a hurry.

Our utilities in this State make you put up money at 6 percent. I don't know how many of those people, people who can't pay their bill, have to put up a security and get 6 percent on their money. Big deal.

I have heard the statement here that we are the fifth largest in sending money to Washington. I would like to know what it was last year. Just a question.

The business climate in Michigan, our workmen's compensation, is miserable. It drives business out of Michigan.

It is not your problem. You, as Democrats, or Reagan or Republicans, did not create it. You didn't create it. Big deal, last year they changed the workmen's compensation and Ford Motor had to pay $50 million more than they did the year before. Big deal.

Look how they helped Ford out. Isn't that great?

They are making the business climate in Michigan so horrible that nobody can afford to open up here. That is why our taxes are down. That is why our income tax is down. Why don't they look at the cause?

Don't blame President Reagan or you people. You didn't do it.

President Reagan didn't do it, and I am telling you, you didn't do it. Just look at it.

Our Governor is in the process right now of trying to change the compensation.

The man this morning said the tool and die industry was vibrant. Well, I will tell you that the workmen's compensation on tool and die people, they formed their own workmen's compensation and have made so much money on it because they pay the premiums that they would normally have to pay into their own insurance company, and now they spread it out among themselves; but now they are making money on it.

That is how they are staying in the State. They have had to do it themselves, and that is a fact.

Let me tell you about unemployment in Michigan.

They are changing it. They are now wising up: 65 weeks, a person can come to you and work for 13 weeks and could in the past quit, get pregnant or any other reason at all and even if you wanted them back you could not get them back to work.

You could not get them back to work. They finally are starting to change it and starting to wise up, that even the State does not have enough money to support these people because not enough people are working in Mayor Bovitz' area and the other areas.

You can't throw enough money into Michigan so we have got to start looking at the causes.

I have a woman general manager and they are good. A lady came in and said she wanted a job and she said, "Why are you looking for a job?"

She said, "Well, my unemployment is running out."

She said, "How long have you been on it?"

She said, "A little over a year."

Now she is starting to look for a job.

The private sector could do something.

This morning I sat here for 4 hours and completely enjoyed myself with you completely. I think you are doing an outstanding job. I really do. I compliment each and every one of you.

Now, in 90 seconds, in 90 seconds I heard recession seven times. We are selling a recession in case we don't know it. We are selling it.

Media picks it up and that is all they have got to report.

If you looked, I wanted to tape, I got a video tape, well, I saw a media in a mall and they stuck a microphone in front of the person and said, "You can't spend as much money as you did last year."

The woman said, "No, I can't."

Phil Donohue, on his program a few days ago, said, "How can you spend money when this woman's husband has been out of work for 4 months?"

The woman said, "If I don't spend money, everybody making toys will be out of work too."

Keep selling it. We will have a full-blown depression if we keep selling it, and I say it is time we stop selling a recession and start turning it around and start going the positive.

Gentlemen, I have got lots more. Oh, I wanted to tell you another thing.

Chairman ROSTENKOWSKI. Mr. Steiner.

Mr. STEINER. I know, I can go on forever.

Chairman ROSTENKOWSKI. I know you can.

Mr. STEINER. I am going to thank you very much.

I ask of you not to blame President Reagan. Do not take the blame yourselves as Democrats or Republicans.

When you voted, the Republicans and the Democrats joined together in Washington and supported the Reagan program. I looked at it personally, not as a Reagan victory, but a victory of the people of the United States, and that is the way I looked at it, so I thank you very much.

I changed from my text after listening to all the people trying to bad-mouth what is happening, but I think really, Mr. Chairman, you are doing a good job, and I think President Reagan is trying to do one.

I have to put him in the category with President Truman, "It is awfully hot in that kitchen."

[The prepared statement follows:]

STATEMENT OF ERVIN A. STEINER, JR., COMMISSIONER, WAYNE COUNTY

POSSIBLE IMPACT OF PRESIDENT REAGAN'S ECONOMIC RECOVERY PROGRAM ON WAYNE COUNTY

President Reagan's program to lower interest has reduced the cost of borrowing to Wayne County. This accommodates Wayne County delinquent tax revolving fund, which benefits all municipalities, townships and school districts in Wayne County, and puts them on immediate cash-flow basis. They are paid for any delinquent tax bill that is not collected by the tax due date.

Wayne County is able to get a lower interest rate from a borrowing institution so that when they collect the delinquent taxes from the taxpayer, at a slightly higher cost of interest, the county is able to repay, to the lender, the tax and interest (which they have paid immediately to the municipalities, townships and the school districts) and have a small surplus for Wayne County. The lower interest rate not only benefits the County of Wayne, but also benefits the local municipalities, townships and school districts.

If the county interest rate charges were higher than the interest rates on delinquent taxes, there would be a charge-back to each municipality, township and school district and then they would share in the loss and not receive 100 percent on the tax bill.

Wayne County can only benefit by any action taken by President Reagan in business tax incentives because Wayne County is a production and manufacturing stronghold in the State of Michigan. Business in the area means jobs and employment. Tax incentives given to employers in Wayne County and the State of Michigan will mean investments by companies and businesses, resulting in increase business activities in Wayne County. This, in turn, will increase sales taxes, income taxes and State property taxes, a portion of which will be returned directly to Wayne County.

This returned tax money will drastically reduce the need for federal funding of some social service programs in Wayne County. The end product will be people in jobs—producing, supporting their families and themselves with dignity. The 1982 Wayne County budget shows a cost of $16 million for hospitalization and medical care of indigent people in Wayne County, who do not qualify for existing Federal programs such as medicare/medicaid or 3rd party insurance.

The more people who are employed, the less people applying for county aid, because the criterion for aid is based on employment or low earnings.

When President Reagan's economic recovery program decreases the rate of inflation, the County of Wayne will benefit directly.

(a) There are $20 million a year COLA payments to approximately four thousand employees. We now have labor contracts with uncapped COLA. A lower inflation rate will reduce the $20 million in COLA payments.

(b) Operating expenses and cost of supplies will automatically be lowered.

(c) The savings realized from controlled inflation would be channeled into additional services and employment for the people of Wayne County.

Chairman ROSTENKOWSKI. Thank you, Commissioner.

We are working under some time constraints and there are some people who are going to follow you, and so we wish that you would try to, if your statements are longer than the allocated time, try to summarize.

Mr. Little.

STATEMENT OF ROBERT L. LITTLE, DIRECTOR, SOCIAL SERVICES DEPARTMENT, WAYNE COUNTY

Mr. LITTLE. Thank you, Mr. Chairman.

I appreciate an opportunity to meet with you today to talk about some of the specific kinds of impacts of the Reagan administration changes on poor people in Wayne County.

I am the director of the Wayne Department of Social Services and, as a consequence basically am responsible for implementing Congress' decisions, and I can assure you that it does look different when you are trying to carry out that which other people talk about.

Wayne is in fact unique, as you have heard today, among Michigan's counties, primarily because of its size, but also because of its urbanization and one other factor and that is essentially the very large numbers of people who are dependent upon some form of public financial support.

During 1981 fiscal year, 440,720 persons per month received some form of public assistance; that is, the ADC general assistance, emergency assistance, and food stamps.

Also, during that period an additional 70,000 people received SSI and medicaid only kinds of benefits.

What this really means is that in relationship to our total county size, 18.9 percent of the citizens in Wayne received some form of public financial assistance.

I would like to compare that with the State as a whole, which is in certainly bad shape, and I believe that figure was 11.9 percent, so Wayne County, in essence, has 7 percent more dependence upon public financial support.

I would like to mention also that in Wayne, welfare is big business, big business.

The total public assistance and medical assistance payments in Wayne County to individuals or in behalf of individuals averaged $112 million per month.

Our experience demonstrates though that over 90 percent of that $112 million is in circulation in our local economy within 3 days of receipt.

To students of welfare economics, it is kind of clear to us that the individual recipient is nothing more than a passthrough vehicle for funds that are disbursed from State and Federal Government to a number of segments in our community, and those segments would include landlords, financial institutions, utility companies, and the medical communities, not to mention merchants.

Our concern here is that we see the continuing reductions of funds available to the poor occurring, but there is no comparable reduction in the costs of the services they must purchase, or those that are purchased in behalf of them.

As a result, the Omnibus Reconciliation Act should perhaps be renamed the "omnious reconciliation act".

When Federal funding reductions are considered along with the State reductions that you have heard about today, it is very clear to us that services to poor people are being cut beyond the bone. They are cut to levels far beyond our ability to make up for the services through State and local funding.

I believe one of the problems we are going to face here is that we have not yet felt the full impact of the cuts that you have passed.

We are beginning to. We know, for instance, that the changes in the gross income test, step-parent liability, and the $30-and-a-third will close a number of cases throughout Michigan; in Wayne it will probably be in excess of 7,000. We also know that not only with the unemployed, but with those individual families who are being removed from the welfare rolls, that there is a marked increase in the amounts of domestic violence, child abuse, neglect, stress-related problems. We anticipate demand upon local agencies, not just my own, but the whole range of public and private human service agencies to continue increasing.

The demands upon them are going to be far greater in the future than their capacity to meet.

From an administrative standpoint, the very large number of changes that have come down have created near chaos.

We have monthly reporting, revised budgeting procedures, expanded vendor payments, the new resource limitation tests, all of these changes require substantial retraining of our staff and in many instances redeployment of staff.

The situation on the firing line is indeed chaotic, confusing, and is conducive to a great deal of client/worker conflict.

One of the biggest complaints of my staff is, how do I explain to them what we are doing to them?

In fact, my staffers are saying, we can't make a good rationale for what is happening to the poor in our community and tell them, well, go to the private sector.

Their initiatives are going to resolve the problem because the private sector is not yet mobilized to address many of the problems our clients are bringing to them.

We have some very serious problems that are going to create additional problems in our community.

You must recognize that thousands of Wayne residents are very dependent on governmental assistance.

The perception of welfare recipients as freeloaders, users, may dominate the minds of those who balance the budget, but those of us in the trenches see a different view.

We see Michigan's economic climate the key problem. Until it improves and until full employment is indeed an option for poor people, the revisions in the welfare system that you have sought to stimulate will not occur.

Efforts to balance the budget are in fact unbalancing the poor, and we expect that this is going to continue, and we further believe that we will all pay and pay and pay for this kind of dependency.

Thank you.

[The prepared statement follows:]

STATEMENT OF ROBERT L. LITTLE, DIRECTOR, WAYNE COUNTY DEPARTMENT OF SOCIAL SERVICES

Mr. Chairman, thank you for the opportunity to speak to the impact of recent federal reductions on services to poor persons in Wayne County. I will limit my remarks to public assistance and social service programs delivered through the Wayne Department of Social Services.

Wayne County is unique among Michigan's counties because of size, urbanization, and most significantly the numbers of citizens dependent on some form of public financial support. During fiscal year 1981, for example, 440,725 persons received public assistance (AFDC, GA, Emergency Assistance, and Food Stamps). An additional 70,000 persons are estimated to receive Supplemental Security Income and Medicaid-only benefits. This is an unduplicated count of recipients, and represents a Public Assistance Recipient Rate in Wayne County of 18.9 percent. The statewide rate during fiscal year 1981 was 11.9 percent, a full seven percentage points lower.

Welfare in Wayne is big business. Total Public Assistance and Medical payments to or in behalf of individuals during fiscal year 1981 averaged $112 million each month. Our experience demonstrates that over 90 percent of these funds are in circulation in the local economy within three (3) days of receipt. To students of welfare economics, it is clear that the individual is indeed a vehicle through which income is distributed to other segments of our community—landlords, merchants, utility companies, financial institutions, and the medical community. It is interesting to note that costs associated with food, shelter, utilities, clothing or medical care are never reduced proportionate to cuts received by the poor.

The Omnibus Reconciliation Act of 1982, from a local perspective is ominous. When the federal funding reductions are considered along with state fiscal cuts, it is clear that services to the poor are being reduced beyond acceptable levels. Michigan's fiscal plight is well known to you. In better years, federal reductions might be offset by increased state and local expenditures. Unfortunately, this is not the case, and we can anticipate demand for services far beyond our capacity to deliver.

The full impact of the changes have not yet been felt in our community. We know that changes in the gross income test, step-parent liability, and the $30 and one-third disregard will close approximately 17,500 AFDC cases statewide by February, 1982. In Wayne, we anticipate closing over 7,000 cases. What may happen to these families is more than speculation. At a time when available jobs continue to decline, we have noted marked increases in reports of domestic violence, child abuse and neglect, mental health and stress-related problems. Local agencies are being taxed beyond their capacities at present, and the full impact has not yet been felt.

From an administrative standpoint, a very large number of regulations and requirements have been revised. Monthly reporting, revised budgeting procedures, expanded vendor payments, resource limitations are but a few of the regulatory changes impacting on my staff. Massive re-training and re-deployment of staff are underway. There is much chaos and confusion in making such basic changes. The paper flow is increasing as well as instances of worker-client conflict as we seek to explain the rationale and reasoning behind the Reagan changes.

Congress must recognize that thousands of Wayne residents are dependent upon governmental assistance. The perception of welfare recipients as free-loaders, cheats, and abusers may dominate the thoughts of those who seek to balance the budget, but those of us in the trenches view the problem differently. Until the economic climate in Michigan improves, and employment is an option for those we assist, your balanced budget will un-balance the poor * * * and we will all pay and pay and pay for our dependence.

Thank you.

Chairman ROSTENKOWSKI. Mr. Vermeer.

STATEMENT OF EVERT W. VERMEER, DIRECTOR, KENT COUNTY DEPARTMENT OF SOCIAL SERVICES, GRAND RAPIDS, MICH.

Mr. VERMEER. I can reiterate what Bob has said in terms of what is happening on the firing line.

I was invited to talk about a little hope, and I would like to thank you for coming to Michigan and to take a look at what is happening here.

Poor people in my county, which is Grand Rapids, which is the home of a former noted Congressman, has about 45,000 people getting some kind of public assistance. We have a budget of about $95 million for this year.

We have the same problems with the Federal cutbacks, the Michigan economy, the high unemployment rate and inflation.

The hope that I speak of is what we are trying to do about it in our county. We have dropped our caseload from about 8,080 AFDC cases to 7,000 AFDC cases in the last 5 or 6 months.

If you were an unemployed father applying for AFDC in Kent County today, you would find yourself in a job club tomorrow. Because of early job-finding efforts, your chances of needing welfare in Kent County would be one in three compared to a statewide average of about two in three.

If you become a welfare recipient, you will need it for a shorter period of time. Kent has the lowest ratio of unemployed fathers on welfare when compared to the AFDC caseload of any county in Michigan. You will be involved at least 6 hours every weekday in organized job finding or training in the adult education programs of Kent's public schools.

If you are an employable AFDC mother, you will be part of the same effort the day your financial assistance case is approved.

The results we are obtaining are exciting. With an average Kent unemployment rate in 1981 of 8.9 percent, which is considerably less than Wayne County, we have 200 to 300 enthusiastic people finding jobs each month.

We have an undetermined number of people not applying for welfare because they are not really available for employment. These people are in informal employment such as gambling, drugs, day work, or tip type employment. It is easy to understand why in Kent County the error rate has been reduced to one of the lowest of any major county in the United States.

The welfare dollar savings have been double our costs as measured by the U.S. Department of Labor, work incentive program measures (WIN). The real savings are greater in that life-long employment skills are developed by many.

Why is this happening in Kent County and not in counties where there are lower unemployment rates? First, Kent officials strongly believe that they have the responsibility and ability to help poor people become self-efficient and self-supporting.

Second, Kent does not accept the well-worn excuse for doing nothing to help people get off welfare because there are no jobs. There are always some jobs. It is our job to help those living on government support to get them.

Third, Kent has developed an excellent working relationship with the County Board of Commissioners, with the public schools, with the Michigan Employment Security Commission, and other related community agencies.

Fourth, as a result of the above three reasons and the success with limited resources, Kent County became one of five counties selected by the U.S. Department of Labor to participate in a national demonstration project called TRIP (total recipient involvement project). The project is complete, and the results in people trained, people employed, money saved, and poor people who now believe in themselves, calls for an expansion of this effort on a State and national basis.

We have learned a few things that may be helpful to others.

First, instead of finding jobs for clients, the Nation can make a lot more progress by making job finders of every employable client.

Second, exposure to the job market is the only legitimate test of employability. Therefore, short term, front end, high intensity job search activities offer the best results.

Third, employable applicants for welfare should be required to participate in formal job search activities before they have to become dependent on grants.

Fourth, the definition of employable should be expanded to require that mothers with young children participate in regular WIN programs leading to employment to help them avoid long-term dependency.

Fifth, the national community work experience program (CWEP) should be restructured to include job search activities and time-limited training to avoid problems and criticisms experienced by previous workfare programs.

Sixth, if the Comprehensive Employment and Training Act (CETA) continues, more of the CETA resources should be directed to train persons receiving Government assistance, including welfare recipients and persons receiving unemployment compensation.

Seventh, changing technology and skill demands, as demonstrated by the auto industry, call for the development of a national retraining policy which should incorporate those we have discussed today.

It is said that if one builds a better mousetrap, the world will beat a path to his door. Kent County has a better employment program, and a number of States, counties, and cities have already been to Kent to see, learn, and take back ideas and hope.

I invite each of you to follow the path and come, see, and get some hope that public assistance recipients can gain employment. You had best visit soon. The TRIP project is done. Even though it has returned $2 for every $1 invested, it will be cut back because Congress has never adequately funded WIN.

At a time when public assistance funds are being decreased, there is also talk of further reducing funding for employment programs. Reductions in both programs will not only result in the poor people we serve having less money to live on but also with fewer resources to help them gain or regain employment.

The most cost-effective service you can make available to the poor today is to provide increased support for the WIN program and WIN demonstration projects. Front end funding that pays the principal back with dividends should be good business.

Thank you, Mr. Chairman.

Chairman **Rostenkowski**. Thank you very much.

Are there any questions of the witnesses?

Mr. **Brodhead**. One question, Mr. Chairman.

I want to thank the panel.

We have a divergence of views here but all of your testimony has been very valuable to the committee, particularly the testimony of Mr. Little and Mr. Vermeer coming from two different counties in Michigan, two different kinds of economies and two different sets of problems.

I am impressed with your efforts to address some very difficult problems but I did want to use my time, instead of asking some question of these witnesses, to introduce some guests that we have with us today.

We have with us today the Espinoza family of Ontario.

They are here because they were invited to Detroit because they are a family in Ontario who started out as migrant laborers and built a number of successful businesses in the Ontario, Canada area and came to the conclusion that something had to be done for our American economy.

They decided that what needed to be done, at least as a beginning to try to unify the country and help the economy, was to purchase American cars; and they traded in all their foreign cars in the family, and they bought 13 Dodge Aries K cars made right here in Detroit, and when the auto industry people and the people in this area heard about it, they were invited to Detroit and we are very pleased and proud to have you with us.

Thank you very much for being with us today.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Guarini.

Mr. GUARINI. One question for the panel.

We know with the State and Federal funds being cut off that there is going to be less money filtering down to the local communities. I am wondering whether or not you anticipate that there will be a real estate tax collection problem in view of the unemployment that we hear of.

People will have fewer resources with which to pay their real estate taxes.

Will this further compound the budget cuts in that your collections may not be what you have had in the past?

Do you anticipate that the real estate tax collections will be lower in the future?

Mr. BOVITZ. I can answer, first of all, the procedure would be that they won't pay their taxes, and we would be short the money and it would become a lien on their homes and they would very possibly for a period of a number of years lose their homes.

Mr. GUARINI. You would have fewer resources in your community to be able to run your local government.

Mr. BOVITZ. That is right now.

Mr. GUARINI. Therefore, you have got that additional problem that you can look forward to, which is further compounded by the budget cuts?

Mr. BOVITZ. True, but for the majority they make their payments through an escrow account and they would probably not make their home payments and probably lose their home first through the mortgage foreclosure.

Mr. STEINER. We have a tax revolving fund which pays all delinquent taxes immediately to the communities, and the county would be the one that bears the brunt of that.

He receives his taxes almost immediately, along with the school districts.

Mr. GUARINI. Like a sinking fund that you have?

Mr. STEINER. We call it a revolving fund.

I don't want it to get out but our tax collector is not as hard as other people's. I don't want it to get out.

Mr. GUARINI. He waits a long time before you have the eventual foreclosure?

Mr. STEINER. He has got a little more of a heart and he is a real nice person but it is a tax revolving fund and they get their taxes immediately on the delinquent.

We do charge an interest on it and go to a lending organization and that gets us into a lowered tax rate that we are getting into now. We do make a little bit of money on it.

Chairman ROSTENKOWSKI. Mr. Conable.

Mr. CONABLE. I have a comment about Mr. Vermeer's testimony which was particularly interesting.

In effect, your testimony contradicts everything we usually hear in Washington.

What we usually hear is that it costs too much to put people in the jobs, that in today's economy there simply are not any jobs, and that the WIN program is so terrible we should quit funding it altogether.

Mr. Vermeer. You have allowed for WIN demonstration projects and you should put it back to us in the States and say, OK, show us, don't cut off all the resources, put up enough money so we can do our thing.

Dr. Dempsey has a task force working on this effort and Mr. Little and I were talking about funding it over this noon hour.

We believe with the effort, as it is being designed, they can take a lot of the principles that they have gained out of these total recipient projects and make them work in this part of the State.

Mr. Conable. Can you confirm also the basic fact that in a time of budget cutbacks one has to be pretty selective about what one cuts?

There is such a thing as being pennywise and pound foolish, and across-the-board cutting can result not only in hardship in some cases but also in increased expense in others.

That degree of selectivity is something that the Federal Government has difficulty with because of the massive nature of our program, but clearly one thing we can get from hearings of this sort is the type of advice you have given us.

Mr. Bailey. Staff just informs me that the Senate is proposing a $100 million cut in the WIN program for next year.

Mr. Conable. There are more proposals for cuts than there are going to be ultimately cuts.

Mr. Vermeer. That would be a very unwise investment.

The tax issue may satisfy political leaders. It does not satisfy the poor, because what happens in Michigan, the taxes after 3 years go up for tax sale and poor people on welfare are forced to lose their homes if they cannot make up the bad taxes.

In our county, our board of commissioners has set aside a pool of money to pay those taxes, to hold that property in the hands of the poor. That is unique and many poor families will lose their homes on the tax question.

Chairman Rostenkowski. Mr. Wolpe.

Mr. Wolpe. Mr. Little, earlier there was some conversation about whether or not some changes have been made with respect to the disregard, changes have been made with respect to resource limitation.

Those changes are yet acting as a disincentive to stay on the job. Do you have any prospects as to what the impacts of these cuts will be in the future?

Mr. Little. We had fewer employed recipients in Wayne County because of what had been happening economically over the last 2 years, so we have not really had to deal with a great deal of pressure yet.

We have been getting some information together, though, that suggests that many of the people are fearful that they are going to lose the related categorical benefits, health care benefits, food stamp reductions, day care reductions, things that have been triggered as much by the State fiscal situation or inability to replace loss of Federal funds.

This is where we are seeing the problem.

What we have also discovered is that what is an incentive to one person is a disincentive to another. We need to keep in mind that over prior years, previous Congresses, certain decisions have been made that have put in motion patterns of behavior, and we are not sure that the current proposals are actually correcting a problem. They may be compounding the problem.

There is a level of governmental dependency that I don't think is fully understood by the Members of Congress, and some of the people who are dependent on welfare money are not clients.

They are the providers of the service, the profiteers who take advantage of one's poverty status and who provide those kinds of support services, so I guess I am really suggesting here that work incentives may be also disincentives, depending again upon your perspective, and we suspect that there are many people who are going to think twice about employment, when their options are very, very narrow, very limited options in our community today.

There are fewer people willing to go out and take some risks which are necessary.

Chairman ROSTENKOWSKI. Thank you, gentlemen, for joining us this afternoon.

Mr. Sinclair, Mr. Hicks, Ms. Crowthers, and Ms. Wright.

The Chair is going to request, if your testimony is longer than the allocated time, we suggest that you summarize and your entire statement will be included in the record.

Mr. Hicks?

STATEMENT OF GERALD HICKS, EXECUTIVE DIRECTOR, MICHIGAN FEDERATION OF CHILD & FAMILY AGENCIES

Mr. HICKS. My remarks will center on social services for children, specifically children and their families from the perspective of the private voluntary sector.

Michigan's services to children, both public and voluntary services, have made great strides during the past 10 years. Much of this progress in helping children came about as a direct result of Federal leadership and Federal funds. Through the combination of governmental dollars and voluntary contributions, Michigan's public and voluntary services have accomplished the following:

Michigan has not squandered the funds given to it. One, we have passed a Child Protection Act and placed protective services staff on a 24-hour call basis. Each year more than 30,000 cases are investigated. Because of support to the family, 85 percent of these children can remain in their own homes.

Two, we have reduced significantly the length of time children stay in foster care.

Three, compared to other States, we have maintained one of the lowest percentages of children in foster care.

Four, we have reduced the number of children in residential care, by placing large numbers in alternative community-based programs.

Five, we have improved the situations of those children who do remain in institutional care by changing the institutions from custodial care to remedial treatment.

Six, we have developed a strong adoption subsidy program. We are now helped through the Federal legislation.

Seven, each year, we place 700 or more hard-to-place children in adoptive homes.

We have cut foster care caseloads almost in half, thereby allowing workers to focus on permanency planning for children. The length of care has been dramatically reduced.

This progress has already been crippled by the loss of from 25–35 percent of present Federal funds. It will be totally destroyed if all Federal assistance is cancelled. As dollars are reduced, public and private agencies have only one choice: They are forced to reduce social services' staff; that is where the funds are used, in adoption, foster family care and residential care, at the very time that the number of children needing such services is increasing.

Already protective services are breaking down, foster care caseloads are consequently increasing, and there is less movement of children into permanent homes. Furthermore, because of staff reductions, children are being removed from residential programs into custodial type facilities.

Withdrawal of State and Federal funds will threaten private agencies' ability to survive. When public resources are reduced, purchase of services from the private sector is the first to go. That is only human nature, that the public agency will protect its own staff, courts will protect their own staff and the purchase programs are the first to feel the ax.

From a recent survey of member agencies of our association, a total annual operations budget of $78 million was seen for 1 year. Of this amount, $17 million from private funding sources, $9 million of it from the United Way; 4.2 percent came from fees for service and 74 percent from governmental funds.

In general, the voluntary dollars are used to provide services to families in crisis who are outside the juvenile justice system.

The archbishop spoke to things that are done with the private dollars, services to pregnant mothers and their children, voluntary foster and residential care for children, and when families are in crisis and family crisis counseling.

In contrast, governmental funds given to the private agencies are used to provide the services for children when they have already been involved with the court system, and where there has been a finding of guilt, of parental neglect or abuse, or where the child has been declared by the court as delinquent.

The Reagan administration is boldly stating that the private agencies should do more. The fact is that we simply cannot do more unless we have continued governmental support.

I want to make particular note in this regard that we were, in the private sector, particularly appreciative of the Gephardt-Conable bill, and this is one way where the expansion of voluntary dollars may come about.

Already voluntary dollars are being used to cover agencies' costs in cases where court intervention has taken place. As a result, fewer dollars are available for preventive services. Voluntary contributions continue to be needed to prevent family separation and to limit the number of children who require Government intervention.

The limited resources in the private agencies are being used to take care of what were traditionally the responsibilities of Government, because the governmental agencies are unable to reimburse the agencies for such services.

Unfortunately, however, the level of voluntary contributions has not kept pace with inflation.

We believe there must be a balance between agency and Government resources. We believe that the private agencies can provide a service that is in the interest of children and their families, and my testimony in its written form spells out the cost efficiency of purchase from the private sector.

Private agencies are struggling and, considering the number of quality and services provided by the private sector and its dependency on Government dollars, it appears in the interest of Michigan's children and sound economics to continue to support the private sector.

We are in serious financial difficulty for the following reasons: Governmental agency reimbursement has been fixed to the agencies on the basis of our 1979 costs. This means by the midpoint of this fiscal year, private agencies will receive only about 75 percent of their current operational cost from Government sources on those cases that are governmental responsibility.

Second, the State has billed the counties for an additional $8 million in child care costs. They have transferred by a legislative action a part of the ADC foster care costs to the counties.

The counties do not have $8 million to pick up that burden. and the consequence will be that from 1,500 to 2,000 children will drop out of the foster care system, and we are talking about children who have been removed from their homes because of neglect and abuse, will be removed from that system and returned home to their own families, if they happen to have a family, because there are no funds to support that.

Additionally, as related to the private sector specifically, it is my belief on the basis of a review of the member agencies of our association, that at least six agencies may not survive this year.

At the present time there are 170 private agency employees already on layoff, even with increased demand for service. This only results in children staying in foster care and preadoptive places, and from 1,500 to 2,000 children who have been declared neglected or abused or delinquent by the courts and removed from their families will be returned to those families.

We ask you specifically to continue the leadership of Congress in protecting and supporting children's programs. I was pleased to see that Mr. Conable made that commitment before he left, because we can say to you truthfully that we believe that the Reagan administration has given up on Federal responsibility for children's programs.

I would give to you as one piece of proof to that, that while the White House Conference on Aging was held last week, the White House Conference on Children was canceled, and our communication from the administration said that that was done because children's services are a State's responsibility.

We believe you should retain the social services planning program at its already reduced level of $2.4 billion.

We are talking about a population that does not vote, and when the funds for children's programs are incorporated into blocks or turned to the States, what will in fact happen as a result of that will be that the children's programs will come out in the short shift.

The burden on the children is too heavy to balance the budget on their backs, and we hope that the Congress will retain what has been a historical and important commitment in working with the State of Michigan and the other States in improving children's services.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF GERALD G. HICKS, EXECUTIVE DIRECTOR, MICHIGAN FEDERATION OF PRIVATE CHILD AND FAMILY AGENCIES

FUNDING HAS ALLOWED GREAT ACCOMPLISHMENTS FOR CHILDREN

Michigan's services to children—both public and voluntary services—have made great strides during the past ten years. Much of this progress in helping children came about as a direct result of federal leadership and federal funds. Through the combination of governmental dollars and voluntary contributions, Michigan's public and voluntary services have accomplished the following:

1. We have passed a child protection act and placed protective services staff on a 24-hour call basis. Each year more than 30,000 cases are investigated. Because of support to the family, 85 percent of these children can remain with their families.
2. We have reduced significantly the length of time children stay in foster care.
3. Compared to other states, we have maintained one of the lowest percentages of children in foster care.
4. We have reduced the number of children in residential care, by placing large numbers in alternative community-based programs.
5. We have improved the situations of those children who do remain in institutional care by changing the institutions from custodial care to remedial treatment.
6. We have developed a strong adoption subsidy program.
7. Each year, we place 700 or more hard-to-place children in adoptive homes.
8. We have cut foster care caseloads almost in half, thereby allowing workers to focus on permanency planning for children. The length of care has been dramatically reduced.

I could greatly expand on this list, but the time will not allow.

FUNDING CUTS JEOPARDIZE THIS PROGRESS

This progress has already been crippled by the loss of from 25-35 percent of present federal funding. It will be totally destroyed if all federal assistance is cancelled. As dollars are reduced, public and private agencies have only one choice: They are forced to reduce social services' staff in adoption, foster family care and residential care, at the very time that the number of children needing such services is increasing.

Already, protective services are breaking down, foster care caseloads are consequently increasing, and there is less movement of children into permanent homes. Furthermore, because of staff reductions, children are being removed from residential programs into mere custodial care.

Withdrawal of state and federal funds will threaten private agencies' ability to survive. When public resources are reduced, purchase of services from the private sector is the first to go.

BOTH PUBLIC AND PRIVATE FUNDING ARE REQUIRED FOR PREVENTION AND PROTECTION

On October 31, 1981, there were approximately 6,000 children in foster family homes in Michigan. One-third of these children were under the care of private agencies and two-thirds were under the care of the Michigan Department of Social Services. On the same day, there were approximately 3,450 children in residential programs, about 45 percent of them in private agency care.

From a recent survey of member agencies, a total annual operations budget of $78,131,793 was reported by 74 of our 83 member agencies. Of this amount,

$17,175,464 came from private funding sources ($9 million of it from United Ways), 4.2 percent ($3.3 million) came from fees for service, and 73.8 percent ($57,661,138) from governmental funds.

In general, the voluntary contributions are spent to provide services to children and families in crisis who are outside the juvenile justice system. These programs—which include such things as family-based protective services, services to pregnant mothers and their babies, and voluntary foster and residential care for children and families—are true prevention programs. In contrast, government funds are used to provide the services for children where there already has been court intervention, as a result of finding guilt of parental neglect or abuse or the child's delinquency.

The Reagan administration is boldly stating that private agencies should do more. The fact is that we simply cannot do more unless we have continued government support. Already voluntary dollars are being used to cover agencies' costs in cases where court intervention has taken place. As a result, fewer dollars are available for preventive services. Voluntary contributions continue to be needed to prevent family separation and to limit the number of children who require government intervention.

Unfortunately, however, the level of voluntary contributions has not kept pace with inflation.

PRIVATE AGENCIES SAVE THE STATE $20 MILLION PER YEAR

Government purchases of voluntary agencies services have allowed excellent services to children at moderate costs. But when dollars are tight, private agencies are the first to feel that cuts. We believe that failure to continue to support the private sector will require that services for such juvenile justice cases be taken on by the governmental agency and will result in mediocre service at higher costs. We can document that the private non-profit sector can provide these services at a significantly lower cost. A study completed by the Michigan Federation in 1978 revealed that if the voluntary agencies were to pay their employees at civil service rates, an upward salary adjustment of 42 percent would be required. This would increase costs by $15 million per year. Fringe benefit differentials were even more dramatic. Fringe benefits in the private sector average 15.7 percent. Said in another way, the state of Michigan is saving well over $20 million per year by purchasing child care services from the private non-profit sector.

PRIVATE AGENCIES ARE STRUGGLING

Considering the number and quality of services provided by the private sector and its dependence on governmental dollars, it appears to be in the interest of Michigan's children and sound economics to continue to support the private sector.

We are in serious financial difficulty, however, for the following reasons:

1. Governmental agency reimbursement has been fixed on the basis of the agencies' 1979 costs. This means that by the mid-point of this fiscal year, agencies will be receiving only about 75 percent of their current costs on government supported cases.
2. The state has billed the counties for an additional $8 million in child care costs. This funding transfer will result in a significant cut in service. Already children are being removed from care and returned to inadequate homes.
3. Runaway and community service centers have lost $1 million in funds and will reduce programs by 25 percent.

In the private sector the aforementioned budget reductions will have the following specific impacts.

1. Six agencies may not survive at all.
2. It is anticipated that some 170 private agency employees are being laid off.
3. From 1,500 to 2,000 of the children who have been declared neglected, abused, or delinquent by the courts and removed from their homes will have to be placed in a nonpaid situation—probably back in their own homes—if the home even exists. For some children, this means very serious risk.

PLEASE RETAIN FUNDING AND KEEP CHILDREN AS A PRIORITY

We cannot survive further cuts. Please please—

1. Retain federal congressional leadership for children's programs as a continuing congressional priority. We need congressional leadership as the recommendations from the administration clearly point to removal of the federal government from support of children's programs.
2. Retain the social services block grant at its already-reduced level of $2.4 billion.

3. Retain the current funding of the children's services titles, so that these programs have a fighting chance. Do not place them in the Social Services Block or any other.

The burden is too heavy to balance the budget on the backs of the nation's children.

Chairman ROSTENKOWSKI. Thank you, Mr. Hicks.

Mr. Sinclair.

STATEMENT OF LESLIE D. SINCLAIR, PRESIDENT, MICHIGAN REHABILITATION ASSOCIATION

Mr. SINCLAIR. I serve as president of the Michigan Rehabilitation Association, the State Chapter of the National Rehabilitation Association.

Its basic purpose is to promote improve life opportunities for citizens who call themselves "disabled," "handicapped" or "handicappers."

I will use the phrase "handicappers" in speaking to you, because that is our current terminology here in the State.

I would like to paraphrase some of the points in my testimony.

Yes, the current Reagan budget, current Reagan program has some very definite effects on handicapper citizens in Michigan and across the Nation.

Our State rehabilitation agency has indicated, due to cuts in Federal dollars, they will serve 15,000 to 20,000 fewer handicappers in this current fiscal year.

Urbanized transit systems, due to cuts in Federal operating support, are already beginning to cut back services to handicapper citizens.

In the State of Michigan, our mental health program, due to cuts in Federal support, is already reaching the point where we will once again have to warehouse individuals in institutions rather than placing people in community-based rehabilitation programs.

A variety of special education supportive services such as assessment and therapy face cuts in the very near future.

I am also told by the Center for Independent Living in Lansing that there has been a tremendous increase in the number of people calling for mental health counseling referrals due to anticipated cuts in a person's benefits and uncertainties over their future.

A multi-agency coordinated Federal White House initiative on independent living was scrapped by the Reagan administration. I could mention several other things we have included in our testimony, but the individual points really underscore a much more fundamental, philosophical concern that I would like to express to you today. And that is that basically the issue of rehabilitation and the issue of handicapper citizens in Michigan and throughout the country is not one of should we spend the money or how much, but rather when should we spend dollars.

The truth of the matter is that citizens who are considered disabled or handicapped will need assistance or some service in their lives. There are two types of services and costs that our country can consider.

One of those, a source of costs associated with services and programs that will provide independence, such as special education, rehabilitation, independent living, transportation programs, and a variety of job opportunities.

Another type of cost and program are those which we would label as dependence programs, a variety of medical assistance, social security type programs, and a variety of other programs, while very important and they need to be continued, they will not have a positive economic impact on the country as the independence producing programs.

The Federal Government itself, the Rehabilitation Services Administration, indicated in a report for every $1 spent in rehabilitation $11 will be returned to the country.

Thus it makes very good economic sense to support programs for handicapped citizens that will provide independence. Yet somewhere in this current administration's philosophy, which is underscored by the constant reference to the so-called safety net, is a philosophy of independence and programs of independence.

We are cutting back on the types of programs that will provide the independence and, frankly, that is our very large concern. The costs will be there, so why shouldn't we spend the kind of money that is necessary to make people economically self-sufficient and independent, so they can return money to the country.

Let me underscore one other point, too.

Our testimony is geared mostly to budget concerns. I would note that there are a number of other things happening at the administration level right now, a number of key regulations are being revised right now which have very adverse impacts on handicapped citizens. A variety of Federal rules and regulations that assure access to governmental programs, access to transportation, guarantee special education services and programs, access to higher education by handicappers are being looked at and are already in the process of being revised to remove some of those guarantees that enable handicapper citizens to have access to the services and programs enjoyed by all of us and which provide for independence as opposed to dependence.

That is a concern that we very much have. We are also not supportive of the lumping the rehabilitation type programs into a social services block grant, and our concern is based on experience, not just a simple rhetorical concern.

The State of Florida tried such an approach and it was disastrous for the citizens there, unfortunately, because the money did not go to those individuals who needed it.

In the end result, we think the record shows the decategorization and the creation of that type of social service block grant would cause many more problems than it would solve.

In conclusion, let me simply read the final paragraph of my written testimony.

1981 was designated the International Year of the Disabled Person (IYDP) by the United Nations and this was supported by President Reagan. Given the funding and program developments of this year under the present administration, handicappers are, I am sure, holding their collective breath, to see what happens in 1982 when it is not their year.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF LESLIE D SINCLAIR, PRESIDENT, MICHIGAN REHABILITATION ASSOCIATION

Members of the Ways and Means Committee, Co-Panelists and interested others, my name is Leslie David Sinclair and I am the President of the Michigan Rehabilitatin Association. On behalf of myself and the Association, I am pleased to be here today to share various concerns with you.

I would first like to note that the Michigan Rehabilitation Association (MRA) is the state chapter of the National Rehabilitation Association. Our state organization is made up of several hundred rehabilitation professionals from many public and private agencies and organizations and it promotes improved life opportunities for persons who call themselves "disabled", "handicapped" or "handicappers" (the term that will be used throughout the rest of this testimony). It also promotes the rehabilitation profession.

MRA is very concerned with the impact of the Reagan budget on handicapper citizens. While there are many statistics available for our use, I prefer to speak more to the human impact rather than dwell at length on dollars and numbers (which unfortunately seems to be the preference of the Administration). Let us begin by noting a concern over the use of the now famous "safety net" that the President and his representatives have assured us exists. We would note that if a handicapper in Michigan or elsewhere in the nation has to use that "safety net" (and here we aren't even addressing the issue whether it would "catch" or "support" a person), the rehabilitation program and government will have failed that person.

That failure is most fundamental and one which the Administration seems unable to recognize and thus unable to correct. It is essential that the government recognize that the real issue is not about how much to spend on handicappers, but rather how and when the money should be spent. As noted in a recent United Nations report on investments in rehabilitation in developing countries:

"Disability will create a cost to society regardless of whether or not rehabilitation services exist. In fact, it appears that the more a society recognizes these costs, the more it attempts to ameliorate them through the provision of adequate disability and rehabilitation services, and the greater is the overall economic return that may be expected."

These costs are of two types, those associated with programs and services that enable handicappers to achieve independence. Examples are special education, rehabilitation, independent living programs, transportation, etc. The other type of costs are medical payment and income support in nature including various social security programs and welfare. We are spending about $10 for dependence programs for handicappers for every dollar that enables people to become independent. The Reagan budget continues this disparity thus reinforcing the myth that handicappers are unable to be independent individuals.

Handicappers are more "abled" than "disabled". The real difference between those who achieve independence and those who don't is less a function of the severity of their so called "disability" than it is related to the effectiveness, timeliness and adequacy of the rehabilitation program. Yet our policies and programs as reflected in the present Reagan Budget and in proposed future program cuts continues the mistaken belief that handicappers are unable to work and support themselves.

This is both surprising and disappointing in view of the economic return of those who become independent. The Rehabilitation Services Administration (RSA) estimates that each dollar invested in rehabilitation will eventually result in a return of $11 to the government. RSA has estimated that for 1979, welfare payments were reduced by $40 million, the Social Security trust fund received $89 million and, federal income tax revenues increased $99 million, as a result of handicappers gaining independent employment after completing a rehabilitation program.

Very clearly, independence makes good economic sense for the country. But again independence requires adequate expenditures for those programs and services that lead to independence. And the Reagan budget shows a clear preference for the "safety net" dependence type of program. Given the tremendous cost of these programs, which do not have the economic return to the country, we cannot understand their preference over independence producing programs.

Now for a few specific concerns caused by the Reagan program:

The state rehabilitation agency in Michigan will serve fewer handicappers in FY 82, as many as 15,000-20,000 fewer due primarily to federal cuts.

Several urban transit systems are cutting back various services to handicappers due to cuts in federal support. This will have a negative impact on a person's employability.

Recipients of Title XX assistance are faced with a 25+% funding cut that means reduced transportation to sheltered workshops, reductions in adult home care, etc.

Support for Michigan's mental health program has been cut to the level where people will again have to be "warehoused" in institutions rather than rehabilitated through communtiy based programs.

The CETA program provided first real employment opportunities for many handicappers in Michigan. Lack of a viable alternative means that many people will again have to (try to) survive on dependence type programs.

Various special education collateral services, (egs., therapies, assessments) will probably be cut.

Councils for the developmentably disabled face cuts. This means that the state organization which helps plan and coordinate services for this population will be able to do even less of a job to help people make sense and use the reduced services that are in the community.

The Center of Handicapper Affairs, the center for independent living in Lansing reports an increase in stress counseling referrals due to cuts in a person's benefits and uncertainties over the future.

A coordinated multi-agency Independent Living Initiative for handicappers has been scrapped by the Reagan Administration.

The Architectural and Transportation Barriers Compliance Board (ATBCB) which assures accessibility in federal structures, faces uncertainty over its future.

The Michigan Rehabilitation Association also notes that various present or proposed Reagan regulation changes are having a serious affect on handicappers. Examples include various Section 504 provisions providing access to government programs, transit accessibility, special education rules, civil rights enforcement and barrier free design standards. The Reagan budget also fails in the sense that it has not capitalized on the opportunity to put in place a nationwide coordinated rehabilitation program. We operate under a patchwork quilt of federal laws and programs that serve handicappers. A coordinated program would improve service effectiveness while eliminating wastes. Instead of taking such a coordinated approach, the Administration attempted to decategorize in law and in rule the rehabilitation program and make it part of a larger Social Services block grant. Experience with such an approach in Florida has shown that it really doesn't work. People who needed the services didn't get them. Administration support for decategorization (with a cut in dollars for the programs so categorized) rather than for a comprehensive coordinated system is, we feel, totally the wrong approach.

Yes, the Reagan budget has a major, and unfortunately mostly negative, impact on handicapper citizens. Programs that facilitate independence and economic return to the country are being cut in favor of "safety-net" dependence programs (which themselves appear to be inadequate).

1981 was designated the International Year of the Disabled Person (IYDP) by the United Nations and this was supported by President Reagan. Given the funding and program developments of this year under the present Administration, handicappers are, I'm sure, holding their collective breath, to see what happens in 1982 when it is not their year.

Thank you.

Chairman ROSTENKOWSKI. Thank you, Mr. Sinclair.

Ms. Crowthers.

STATEMENT OF VIRGINIA L. CROWTHERS, EXECUTIVE DIRECTOR, DETROIT AREA AGENCY ON AGING

Ms. CROWTHERS. I am Virginia Crowthers, the executive director of the Detroit Area Agency on Aging, which embraces not only the City of Detroit but eight surrounding suburban communities as well.

We indeed appreciate greatly the opportunity to focus your attention on the effects of the Federal budget plans for fiscal year 1982 on senior citizens.

I wish to indicate that we are indebted to the Michigan Office of Services to the Aging and its director, Mr. Kenneth E. Oettle, and to the Joint Special Committee on Aging of the Michigan House of Representatives and its chairman, Representative David C. Hollister, for an excellent summary of the impact of Federal budget cuts on Michigan's older population.

Copies of these materials will be furnished if your committee would so desire. These materials contain information regarding: CETA, title XX, food stamps, medicaid, health, mental health, substance abuse, housing, transportation, voluntary programs, community services block grant, legal services, energy, as well as recent action on the social security minimum benefit.

We are pleased that you have come to Michigan to learn of the concerns of Michigan's elders.

At the present time, Michigan's older citizens are caught in a bind because they are forced to face the future worried about whether they will have food, shelter, heat, health care, or other vital services, public and private.

What seems to them callous indifference means they will not be able to live their lives in dignity and security, in spite of 40 or more years as taxpayers and earners.

Yesterday we asked some of our agencies with whom we work what some of their observations are regarding what is happening with the older people right now as a result of budget cuts. I would like to give you some examples from these agencies.

In relation to CETA, in addition to the severely increasing unemployment rolls in Michigan, the State with the highest unemployment, the elimination of title VI of CETA has caused many agencies to drastically reduce their staffs and services.

It has caused some of our programs to eliminate one-fourth to one-third of their staffs. These were people who were driving vans, serving food in the food programs, and performing other supportive functions.

For example, one community mental health agency which provides outreach services to seniors to link isolated individuals to already existing programs, such as Senior Day Care, Meals on Wheels, Home Health Care, and similar services, has lost 21 CETA positions. This means a reduction of one-third of the staff positions and services.

This translates into no staff to investigate and respond to phone calls about elderly neighbors who have been acting strangely and are known to have no relatives, and no staff to make daily telephone reassurance calls to isolated seniors to make sure they have not suffered a physical or medical emergency, no staff to troubleshoot for seniors when they encounter the bewildering and changing world of social security bureaucracy when applying for social security or SSI or medicare or disability.

Another example is senior citizens in senior day care programs which have had to eliminate or reduce programs because of CETA cuts. Seniors who need some assistance with simple housekeeping functions in order to remain outside the nursing home may no longer have such services.

An example that was brought to our attention at a training meeting for the Michigan White House Conference on Aging delegates was an example which came from Manistee, Mich., where Mrs. Ellen Zimmerman is running an adult day care program. Having been funded through title XX funds, she had been serving 30 individuals, and that number is now reduced to 10. Of the 20 individuals who no longer can come because of the cuts in title XX, 15 are now in nursing homes.

Many agency people have told us that they are hearing seniors state that they cannot pay for their regular prescriptions, or winter heating bills, increased food costs, and increased housing expenses.

The type of statement I often hear is, "I just can't go to the doctor because I can't afford the type of medicine prescribed anyway."

Seniors do not talk about purchasing big personal items such as clothes. The opportunity to give gifts is gone. They fret and brood over getting through the cold winter.

The Director of the Legal Services Office which represents seniors stated he is seeing more clients come in to request how to get funds for food, shelter assistance, utility aid and health care.

The problems they are bringing are not legal problems, but basic problems of survival. Another example of the situation in Michigan: We had a pioneer program called Project Restore which was funded through title XX and which was geared to focus on keeping disabled people out of institutions. It began with blind folks really, and through a public-private cooperative arrangement between agencies, it expanded to other disabled people. It is geared to include them in the ongoing normal kinds of activities in a senior center.

Recently the people working with this program were informed that the entire program is in jeopardy. We could give you other examples of the effects on the food programs, transportation, and nursing home care and monitoring. The common denominator is the fear that people have about these kinds of needs, the uncertainty that people face, and the feeling of being betrayed.

There was a news report last week that the House appropriated $992 million for the Older Americans Act, or $400 million less than fiscal year 1981. This amount is approximately twice the amount of the cost of two B-1 bombers. Nine million older Americans, plus millions of citizens and their families and friends, find it very hard to equate preparing to kill innocent citizens of other countries with working to preserve the dignity, well-being, and even the lives of our Nation's elderly citizens.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF VIRGINIA L. CROWTHERS, EXECUTIVE DIRECTOR, DETROIT AREA AGENCY ON AGING

I am Virginia L. Crowthers, Executive Director of Detroit Area Agency on Aging. I appreciate greatly the opportunity to focus your attention on the effects of the federal budget plans for fiscal year 1982 on senior citizens. The Detroit Area Agency on Aging funds services for seniors and works with other agencies to co-ordinate and plan for future priorities and programs for seniors.

I wish to indicate that we are indebted to the Michigan Office of Services to the Aging and its Director, Mr. Kenneth E. Oettle, and to the Joint Special Committee on Aging of the Michigan House of Representatives and its Chairman, Representative David C. Hollister for an excellent summary of the impact of federal budget cuts on Michigan's older population. Copies of these materials will be furnished if your committee would so desire. These materials contain information regarding: CETA, Title XX, Food Stamps, Medicaid, Health, Mental Health, Substance Abuse, Housing, Transportation, Voluntary Programs, Community Services Block Grant, Legal Services, Energy, as well as recent action on the Social Security minimum benefit.

It is important that you have come to Michigan to learn about the concerns of Michigan's elders. Michigan is in a most unenviable position of suffering from its own severe economic depression, in addition to the hardships caused by federal reduction in expenditures.

Because unemployment is not a significant factor in formulas for state allocation of federal funds, senior citizens in Michigan suffer a most ironically brutal fate. They, who have paid taxes into the federal and state systems for a lifetime of employment and service, are experiencing a period in which they are forced to face the future worried about whether they will have food, shelter, heat, health care, or services, public and private. What seems to them callous indifference of the federal government to their plight as Michigan senior citizens means they will not be able to live lives of dignity and security in spite of forty or more years as taxpayers and earners.

The following are several specific areas in which budget slashes have caused noticeable hardship. In preparation for this, our staff was able yesterday to talk directly with staff of thirteen various agencies in the Detroit area to obtain current observations on the situation of our older adults.

CETA

In addition to severely increasing the unemployment rolls in Michigan, the state with the highest unemployment in the country, the elimination of Title VI of CETA has caused DAAA-funded agencies to have drastically reduced their staffs and services. The elimination of Title VI has caused most of the programs DAAA funds to eliminate one-fourth to one-third of their staffs. In addition to Michigan's losing an opportunity to train employees in social service ocupations, seniors have lost vital services.

For example: One community mental health agency, which provides out-reach services to seniors to link isolated individuals to already existing programs, such as Senior Day Care. Meals-on-Wheels, Home Health Care, and similar services, has lost 21 CETA positions, This translates into no staff to investigate and respond to phone calls about elderly neighbors who have been acting strangely and are known to have no relatives; no staff to make daily telephone reassurance calls to isolated seniors to make sure they have not suffered a physical or medical emergency during the previous day; no staff to trouble-shoot for seniors when they encounter the bewildering and changing world of Social Security bureaucracy when applying for Social Security or SSI or Medicare or disability.

Senior Centers and Senior Day Care programs are additional examples for programs which have had to eliminate or reduce programs because CETA-funded positions were wiped out. Seniors who need assistance with some simple housekeeping functions to remain outside a nursing home may no longer have such services, known as chore services, accessible because one of the main sources of chore service workers were CETA-funded workers.

An additional example is from a Director of an Adult Day Care program in Manistee, Michigan, recited at a recent meeting of White House Conference Delegates in Michigan. Mrs. Zimmerman indicated that her program had served 30 seniors in the Manistee area through an Adult Day Care program. With the cut of Title XX funds, the program is now serving 10 of those 30. Of the 20 who are no longer able to make use of the Adult Day Care program through Title XX funds, 15 are now in nursing homes in that community.

GENERAL FACTORS

Through contacts with the above-mentioned 13 agencies, all of which have connections with Detroit Area Agency on Aging, we learned that they are seeing senior citizens who are confused and overwhelmed by the changes in the systems of federal programs, such as food stamps and Medicaid. Because of the uncertainty generated by the ominous threats of continuing reductions in social services programs and because of the reduced buying power of their fixed income, staff have cited a general atmosphere of hopelessness among clients and program participants.

Seniors state they cannot pay for their regular prescriptions; their winter heating bills; increased food and shelter costs of their housing and/or their apartments.

The type of statement often heard is: "I just can't go to the doctor because I can't afford the medicine prescribed anyway", or "If I pay my utility bill, I can't buy food." Seniors do not talk about buying personal items such as clothes; the opportunity to give gifts is gone; even postage stamps are a luxury they fret and brood over getting through the cold winter and paying for blood pressure medicine.

The Director of the Legal Services office, funded by the DAAA for a senior project, stated that he is seeing more clients come in to request how to get funds for food, shelter assistance, utility aid, and health care. The problems he is facing are most basic, not legal problems; rather, they are problems of essential needs not being provided for the elderly United States citizens.

This comes at a time that we understand through a news report last week that the House of Representatives last week appropriated $992 million for the Older Americans Act or $400 million less than fiscal year 1981. This amount is approximately twice the amount of the cost of two B1 bombers. Nine million older Americans, plus millions of citizens who are their families and friends, fail to equate preparing to kill innocent citizens of other countries with nurturing our nation's elders.

APPENDIX

TITLE XX COSTS

Although the Michigan Department of Social Services has pledged to pick up programs which are slated to be severely cut by block granting and reduction of Title XX funds for social services, the economic picture of Michigan does not make this hope a reliable one. Therefore, those programs which relied on Title XX funds to help defray the cost of transporting senior citizens to senior centers, to pay some of the overhead costs of such centers, will look to Older Americans Act monies to augment their programs. Yet it was never the intent of the Older Americans Act to provide all services to the elderly.

In the Detroit area, one of the pioneer examples in the country of a program to enable older citizens to remain in their homes rather than to be institutionalized is called Project Restore. Jointly administered through public and private agencies, it is facing a disastrous cut if not complete wiping out. This program brings together seniors who are housebound due to a physical infirmity to a center.

It started with the elderly blind and has expanded to victims of stroke, arthritis or other injuries. It now consists of eight sites so the seniors can receive the multiple services of a well-run senior center, including occupational therapy. The goal of this vital program is to mainstream the elderly so they can avoid being institutionalized. Some Project Restore programs pick up their clients in a specially equipped van; others use other means of transportation. At the center they not only socialize with "normal seniors", they get a nutritional meal and are integrated into the total program of the centers. Cutbacks in CETA have eliminated van attendants, cutbacks, in Title XX have jeopardized the entire program. If it cannot be preserved, such seniors served will possibly have to go to nursing homes where costs will obviously be much greater.

INSTITUTIONALIZATION AND ITS ALTERNATIVES

The goal of keeping aged and informed out of nursing homes is generally advocated. In order to do so, support services are needed, such as home-delivered meals, home health care, chore services, etc. In Detroit there is a six to eight month waiting list for seniors wishing meals-on-wheels. These are individuals who have a doctor's prescription that such service is appropriate and necessary. Waiting lists like this or worse exist for such services for seniors as minor home repair and subsidized housing. These waiting periods are widely prevalent without cuts in the Older Americans Act. So, if future Congressional activity reduces Older Americans Act monies, the problems will obviously be aggravated. In addition with other cuts in other areas pressures for the already not adequate Older Americans Act monies will be greater.

Nursing home care has long been the subject of criticism because of lack of quality care in many instances. The proposal to require less than annual certification for those homes housing residents on Medicare and/or Medicaid will reduce the surveillance of known substandard institutions. In addition to this, the use of the Joint Commission on the Accreditation of Hospitals to evaluate nursing homes, instead of a separate set of standards developed by a publicly accountable body will also reduce the oversight of nursing homes. These institutions, for the most part, owe their existence to the federal funds of Medicare through Title XVIII and Medicaid through Title XIX of the Social Security Act. It is unfair to let them survive on federal dollars without publicly supported scrutiny of their performance. Residents of homes in the Detroit area have witnessed a recent scalding death of a nursing home patient, deaths of patients who wandered out of a home because of inadequate supervision, and a rash of deaths of patients in one home during November where patients were given a flu shot without authority as mandated in state law. If these tragedies occur now, what can be expected when surveillance of quality of care and patients' rights are drastically reduced?

HEALTH BLOCK GRANTS

The Mental Health Block Grant (which also includes Alcohol and Drug Abuse) has cheated seniors out of what was a strong legislative mandate for mental health services. The federal Mental Health Systems Act had earmarked funds for seniors which would have required community mental health centers to provide services to older adults. Congress' recision of that act in favor of the Mental Health Block Grant along with a federal funding reduction of 25% means seniors who have never been a priority population for community mental health centers, will have their needs lost among the needs of the general population.

It is estimated that, at any one time, between 15–20% of Michigan's senior citizens are in need of mental health care. Yet appropriate out-patient mental health services for seniors are extremely rare. As a result, many older adults face a loss of independence and will have nursing homes as their major alternative as their illnesses worsen. What services are offered to seniors will be for those most at risk and therefore preventive care and out-patient treatment will continue to be neglected.

Chairman ROSTENKOWSKI. Thank you very much, Ms. Crowthers. Ms. Wright.

STATEMENT OF LILY WRIGHT, FORMER AFDC RECIPIENT, DETROIT, MICH.

Ms. WRIGHT. My name is Lily Wright, and I want to thank you for giving me this opportunity to speak to you. Although I am not very brave about speaking publicly, I feel the cuts in social services are so devastating that I must try to make all of you understand how unreasonable it is to balance your budget on the shoulders of a poor working mother.

My husband and I separated in 1969. He has had a long history of mental illness with a complete breakdown in 1978. He is unable to take care of himself today.

I was left with five children and had to go on aid to families with dependent children in 1970. I began attending Wayne State University in 1970 full time, to train for a decent paying job as a pharmacist. After 2 years or so, the university refused to give me, an AFDC recipient, an educational grant, and AFDC refused to finance my education, so I had to drop out of college about a year later.

In March 1978, I gained a CETA job with the Detroit Board of Education as a school health worker and in August 1978, I went to work for the city of Detroit as a clerk. I still work at that job.

Of my children, my 18-year-old son is a freshman attending Santa Barbara Community College on a scholarship and working 19 hours a week to support himself. My other four children, ages 16, 15, 14, and 12, are at home with me and attending high school and junior high school via public transportation which coast $69 per month for them.

Until December 1 we had been receiving a small AFDC supplement and, more importantly, medicaid for all of us. This has meant that, should one of my children or myself become ill or need dental care, I was secure knowing that I could take that child or myself for the professional care needed.

I just came out of the hospital last week. My doctor says I have hypoglycemia and chronic pancreatitis. Both ailments need regular medical attention. My doctor made an appointment for me to return in 2 weeks.

But my AFDC case was terminated December 1. My medicaid was terminated December 1, and my food stamps were terminated 2 years ago, all because I am not "truly needy,"—because I work at a modest paying job. Not because I have more spendable income and not because I don't need medical care.

Formerly, under the AFDC program in Michigan, needs for an at-home family of 5 was $691 a month. Michigan has since cut back the grants—8½ percent below the standard of need, so that if I was at home on AFDC and not working, we would only receive $632 a month. This would allow me just $230 a month for my house mortgage payment which is actually $293 a month.

Also, under AFDC I would also be eligible for $147 a month food stamps and medicaid and VHF, the voluntary heating fuel program, which would pay the balance of heating costs after I had paid the budgeted amount of $68 a month. So $632 from AFDC and $147 food stamps, total $779 spendable income per month. Keep that figure in mind!

But, you say I am not considered "truly needy" because I work! Let me tell you the facts: My gross pay per month is $1,028. My mandatory deductions total $203 per month; FICA, $61; Federal withholding, $54; Michigan withholding, $15; Detroit withholding, $22; union dues, $13; life insurance, $5; benefit, $1; and retirement, $31. I spend $46 a month bus fare going back and forth to work. My spendable income, from working, is $779—the same as being on AFDC, you say. Not if a family member gets sick. I have no medical coverage and no help when my gas bil goes over $68 a month, and it does nearly every month. My last bill was $120, and winter has just begun and gas is going higher.

I remember that my medicaid was suspended one month in 1979. I had been going to a doctor who said I might have cancer. The month my medicaid didn't come, he refused to see me. Just as an AFDC mother can't afford to pay doctor bills, neither can I, a working mother with a modest income.

I am really worried that my doctor is going to refuse to treat my hypoglycemia and chronic pancreatitis this month when I show up without my medicaid coverage.

Am I to work without medical care until I become totally disabled and totally dependent on aid? I would so much prefer working with that help from AFDC. Both my children and I benefit.

Please bring some sanity back to the programs which help families survive. Help me so my children will continue to believe that responsible, healthy adults work for a living whenever jobs are available.

Chairman ROSTENKOWSKI. Any questions of the witnesses?

Thank you very much.

Mr. GIBBONS. I would like to say to Mrs. Wright, you have outlined a problem that is very real and one that haunts us all.

Sometimes being on full welfare is far more attractive than working, and that is a very difficult problem to solve.

We will take your statement and study it a little more. That is a real problem.

Chairman ROSTENKOWSKI. Mr. Brodhead?

Mr. BRODHEAD. I want to agree with what my colleague just said. That was a very eloquent statement that you made, and this was a topic of some, exactly what you are talking about, this was the topic of extensive discussion before the committee earlier this year, when the President submitted his package.

I recall on the Public Assistance Subcommittee we had a debate on this point that lasted a couple of hours, and for those of us who felt it was unwise to remove the incentives for people to go to work, that it was pennywise and pound-foolish prevailed in this committee, but unfortunately we were overturned on the floor.

That is when some of these things went into effect that are most troubling to you.

It seems hard for me to understand that, sometimes it is very foolish to cut off assistance to people who are making valiant efforts to uplift themselves and 90 or 95 percent self-supporting and to remove those last few props that people need in order to make it, may well have the impact of, over the long run, increasing the number of people on welfare rather than reducing them.

Yours is a very eloquent and wise statement, and one that I hope this committee, as I say, we have agreed with you on this point before, and I hope that ultimately the Congress and the administration will agree with the point that you are trying to make, and that we can restore some sanity to our programs.

Thank you.

Ms. WRIGHT. Thank you.

Chairman ROSTENKOWSKI. Mr. Bailey?

Mr. BAILEY. Thank you, Mr. Chairman.

Lily, although your statement here is a matter of public record, I would like to send it to Mr. Dempsey, who is here this morning. You just made a perfect point that I tried to make, the case cannot be that singular. There have to be a lot of people in your situation.

Ms. WRIGHT. There are 15,000 mothers in Michigan.

Chairman ROSTENKOWSKI. Thank you very much.

The Chair would like to explain because of different plane connections, you are seeing members leave, but believe me, when we get this record back to Washington, I am sure my colleagues will read the record.

Thank you very much.

Mr. Foster, Mr. Anderson, Mr. Huegli, and Ms. Fell.

Chairman ROSTENKOWSKI. Welcome. If your statement is longer than the allocated time, we would appreciate a summary of your statement.

Mr. Foster, the executive director of the United Way of Grand Rapids.

[No response.]

Chairman ROSTENKOWSKI. Mr. Anderson.

STATEMENT OF E. W. ANDERSON, CHAIRMAN, GOVERNMENT RELATIONS ROUND TABLE, DETROIT CHAMBER OF COMMERCE, ACCOMPANIED BY DAVID L. LITTMAN, VICE PRESIDENT AND SENIOR ECONOMIST, MANUFACTURERS NATIONAL BANK OF DETROIT

Mr. ANDERSON. Thank you, Mr. Chairman.

I am Ernest W. Anderson, vice president of corporate affairs and secretary of Federal Mogul Corp., which is headquartered in the Detroit metropolitan area.

I am appearing here as chairman of the Government Relations Round Table of the Greater Detroit Chamber of Commerce.

Here with me is Mr. David L. Littman, vice president and senior economist of the Manufacturers National Bank of Detroit, who assisted me in the preparation of this statement.

We very much appreciate the opportunity to come before your committee and share with you some information and to suggest what action is needed to effect Detroit's and the Nation's economic recovery.

In the interest of saving time, we have included background information entitled "Detroit and the Nation Await Lower Inflation" which is a part of our statement.

As you may or may not know, the Detroit area economy, and for that matter, the entire State of Michigan, stands as a bellwether of problems or prospects facing the entire U.S. economy.

With nearly one-third of our work force devoted to manufacturing pursuits, Detroit's economy highlights what is sick or healthy with regard to national incentives to save, to invest and to accumulate the capital on which our future growth depends.

We are also painfully aware that many of Detroit's and the Nation's workers are competing on a worldwide basis for their jobs.

In the background material is a chart that shows very vividly the tremendous adverse effect that high inflation has on Detroit's business activity, meaning employment and payrolls.

Just as dramatically, the converse is true. Low inflation generates local growth superior to the national average.

This should not come as a surprise because during high inflation periods the following conditions prevail: The amount of capital investment behind each worker is limited, which lowers their productivity and jeopardizes their ability to retain their jobs.

High unemployment reduces Government revenues and generates a need for more public assistance.

High interest rates restrict the ability of people to purchase homes, automobiles and other large purchases. This is turn causes higher unemployment.

High inflation generates higher cost-of-living payments thus making the worker less competitive and less able to retain his job.

High inflation generates a greater need for increasing welfare payments.

In summary, high inflation falls the hardest on the poor, the low income worker and the worker engaged in manufacturing large consumer products.

I believe we can all agree that inflation is one of our most serious problems. Hopefully we will agree on what needs to be done to bring inflation down and to keep it under control.

We are now undergoing the inevitable and painful correction for excessively stimulative and inflationary fiscal and monetary policies of the past 20 years. Included in the background material is a chart that reflects shortsighted though well meant deficits generated year after year. These deficits resulted from the lack of determination to live within our means.

Too often we have prematurely stimulated the economy as a well-intentioned effort to minimize economic correction in the short run, thereby short circuiting a sustainable path toward long-term growth and healthier employment gains.

This time around, we are depending on policies that will not vacillate and will not concentrate on taking from one pocket and giving to another.

Monetary policies over the past 12 months have been appropriate; we hope they continue, for it would be an indescribable tragedy for us in Detroit to have endured two-thirds of the pain of correction only to have a well-intentioned but shortsighted policy of stimulation consigning us to an even more painful correction in the future.

We must not let the critics of the Nation's present economic policies impose upon us the same well-intentioned, but tragic mistakes that have been inflicted upon us for the last 20 years.

Although there appears to be some slowing of inflation, all of us must understand that inflation cannot be conquered overnight.

It will take time.

Social problems are sufficiently complex that neither the private nor public sector on its own can resolve them. The private sector in southeastern Michigan plans to take an active role in bridging the gap between what Government was doing and what it will not be doing while inflation is being fought.

The Greater Detroit Chamber of Commerce is conducting an analysis of the impact of Federal reductions to identify where serious community problems may develop in which available private sector resources might be brought to bear.

The study will analyze the amounts and percentage reductions for the next 3 fiscal years using 1981 as the base.

Initially, we are looking at the 1,900 Treasury Department accounts for outlays and have identified those programs which have the greatest effect on the people of southeastern Michigan. When I refer to available private sector resources, I mean principally, nonfinancial resources. Due to the current high unemployment, Detroit-based firms are in no position to donate significant sums of dollars.

In Detroit, labor unions, businesses and concerned citizens are already in the habit of joining in partnership with Government to achieve mutually desired community objectives.

Through our analysis of the impact of budget cuts our objective is to increase the influence of cooperative voluntary action and private initiative on our daily lives in order to meet social needs.

Of course, the best thing business can do for anyone is to give him or her a job. And we would like to and hope to be able to hire each and everyone of the thousands of unemployed in this region.

This brings me right back to my earlier point, the only way we will be competitive and able to hire those people back is if we continue the Nation's present economic policies.

I believe the cost reduction and the tax relief measures passed by Congress with bipartisan support together with the Federal Reserve monetary policies are our best hope to control inflation.

Furthermore, they reflect what the majority of the people want and every effort should be made to allow these policies to succeed.

Thank you for allowing us to make this statement. Mr. Littmann or I will attempt to answer any questions you may have.

[An attachment to the statement follows:]

DETROIT AND THE NATION AWAIT LOWER INFLATION

The past two dozen years clearly show that economic expansion in southeastern Michigan can exceed the national expansion rate when inflation rates are low or declining.

It is equally true, however, that accelerating inflation rates suppress the local growth potential to levels below that of the nation. The last two years have amply demonstrated this inverse relationship in the case of local economic performance and the accelerating price spiral.

There are two increasingly obvious reasons why an inverse relationship between growth and inflation applies more dramatically to metropolitan Detroit than to the overall U.S. economy. First, when inflation is declining, real purchasing power of the dollar rises and this allows discretionary personal income to increase. Gains in real disposable personal income favor consumer purchases of durable goods and major items such as automobiles. Secondly, a lower national inflation rate is always the most powerful incentive to spur savings and investment. Increased investment in the United States, in turn, provides a major thrust to southeast Michigan's economy, bolstering expenditures on new plant facilities and equipment to replenish the stock of depreciating capital. Therefore, from the standpoint of both consumption and investment, Detroit and the entire Michigan economy, with more than 32 percent of its work force devoted to manufacturing pursuits, stands to be a chief beneficiary of lower inflation.

To illustrate the corrosive effects of inflation on a highly productive regional economy such as southeast Michigan, the lower chart depicts the United States Industrial Production Index and compares it with the Detroit Area Business Activity Index on an annual basis. The first panel of the chart covers a 12-year period (1957-1968) during which the average annual increase in the United States Consumer Price Index (CPI) was 2.1 percent. The real growth of the Detroit economy (deducting inflation) over that same period was 4.2 percent. In stark contrast, the second panel compares the subsequent 12 years when consumer prices averaged gains of 7.5 percent per annum. The average annual growth of the Detroit economy in this second case was a sluggish 1.1 percent.

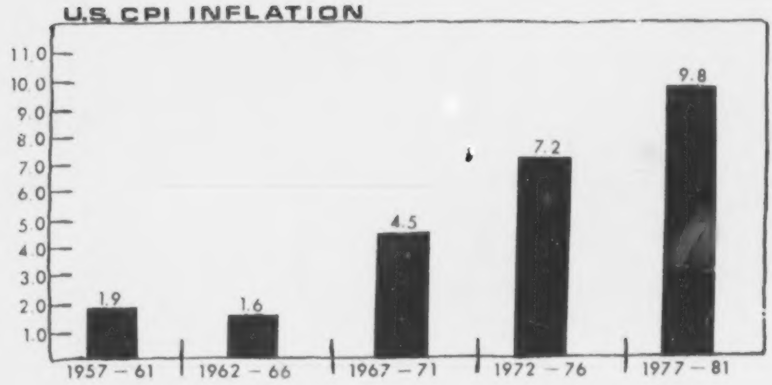
New Car Sales Depend on Growth in Income – After Tax and After Inflation

It is a statistical fact of life that new car sales generally advance when real disposable personal income expands at rates faster than 3 percent. To illustrate, since 1960, there have been seven years in which new auto sales in the United States were relatively stagnant or declining. It is important to note that in those seven years, the average after-tax, after-inflation, personal income growth for the nation was only 2.3 percent. By contrast, the 12 years in which new auto sales in the United States showed year-to-year improvement were also the years when real personal income growth averaged 4.7 percent.

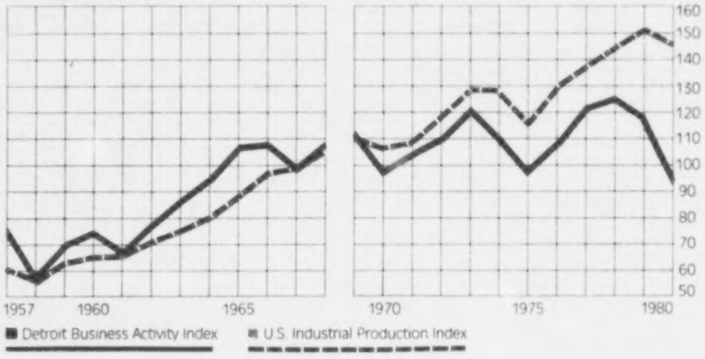
The inflation spiral, abetted by extraordinarily expansive fiscal and monetary policies over the past several years and coupled with rising tax rates, dropped 1980 United States disposable personal income below 1979 levels. Loss of disposable and discretionary income was especially damaging to sales of Michigan's chief export – 1980 and 1981 model year automobiles. Not only did inflation lead to surges in product prices, but all interest financing costs soared as well. This escalation in prices and finance charges on motor vehicles, which are a somewhat postponable item, led consumers to nurse their aging automobiles along for at least another year. This was largely the story of 1980.

Detroit Would Prosper Most from Lower Inflation

The economic imperative for the nation, and certainly no less so for Detroit, is to reverse the inflation spiral and to embark upon a more rapid program of capital formation. Declining rates of inflation would result in greater private investment and healthier increases in durable goods spending. With the excellent land, labor, capital, energy, water, and transportation resources available in southeast Michigan, the economic fundamentals definitely point to a resurgence in economic growth rates for southeast Michigan over the balance of the century. No economic region in the United States would derive more economic benefit from renewed capital formation than Michigan. The key question remains, "Will there be a consistent disinflationary set of fiscal and monetary policies established in Washington to bring these economic fundamentals back into view?"



Economic Activity (1967=100)



Business Activity Indexes
(Percent Change from the Previous Year)

Recovery Years	Detroit SMSA	Michigan	U.S. Industrial Production
1959	20%	16%	12%
1962	14	11	8
1963	11	9	6
1968	10	7	6
1971*	6	6	2
1976	10	8	11
1977	12	7	6

*Wage-price controls imposed in August, 1971

Recession Years	Detroit SMSA	Michigan	U.S. Industrial Production
1958	(22)%	(16)%	(7)%
1961	(10)	(6)	1
1967	(8)	(5)	2
1970	(12)	(6)	(3)
1974	(9)	(6)	0
1975	(11)	(9)	(9)
1979	(5)	(3)	6
1980	(19)	(15)	(4)

Note. The Detroit and Michigan Business Activity Indexes encompass monthly economic activity for the six-county metropolitan Detroit and Michigan regions and cover the financial, employment, energy, production and retail sales sectors of the regions. The effects of inflation are removed. The U.S. Industrial Production Index is widely used to monitor total physical output for the United States.

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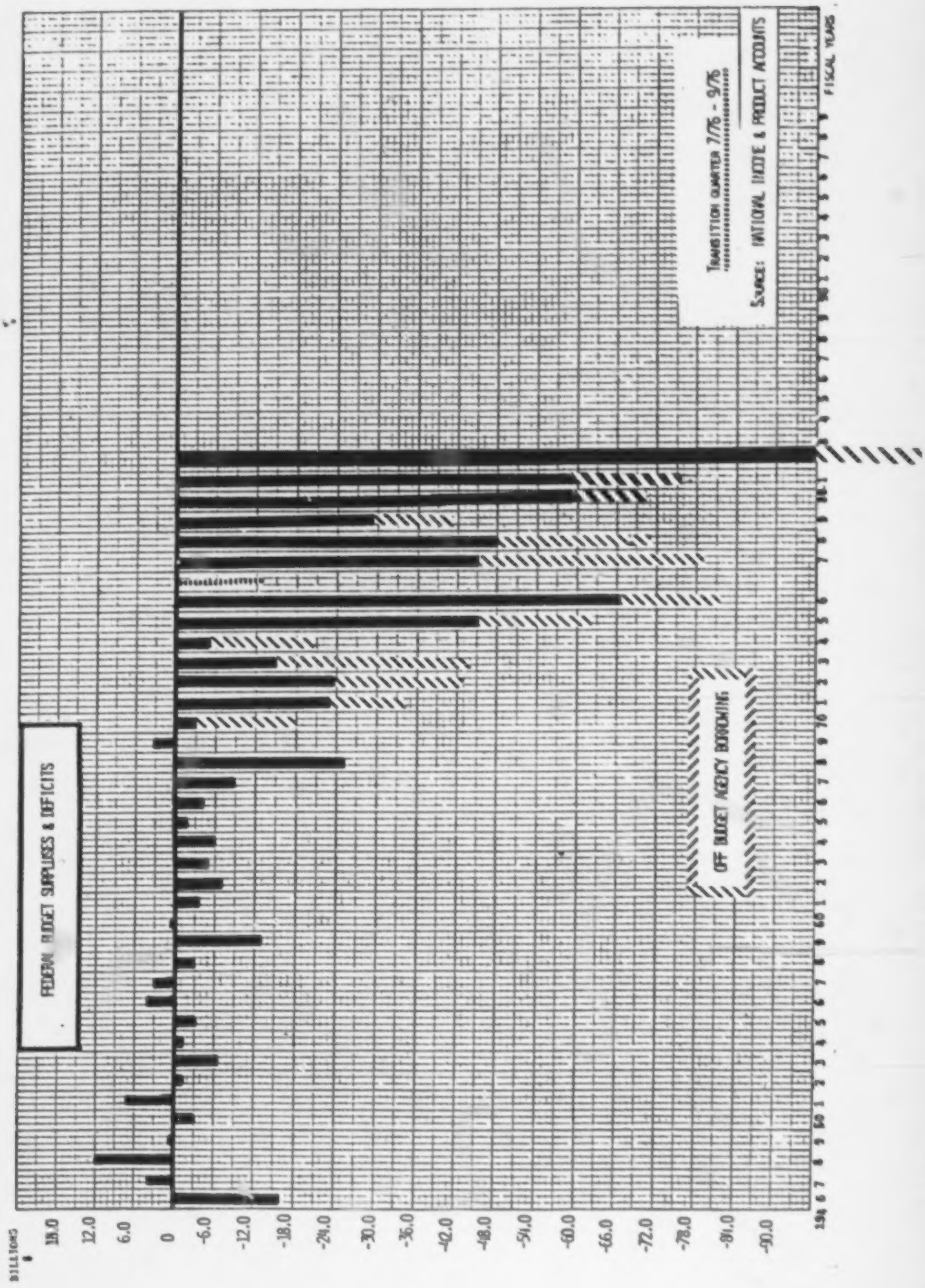
FEDERAL BUDGET SURPLUSES & DEFICITS
OFF BUDGET AGENCY BORROWING
TRANSITION QUARTER 7/76 - 9/76
SOURCE: NATIONAL INCOME & PRODUCT ACCOUNTS
BILLIONS $
18.0
12.0
6.0
0
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-18.0
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1946 7 8 9 50 1 2 3 4 5 6 7 8 9 60 1 2 3 4 5 6 7 8 9 70 1 2 3 4 5 6 7 8 9 80 1 2 3 4 5 6 7 8 9
FISCAL YEARS

Chairman ROSTENKOWSKI. Thank you, sir.

Mr. Huegli.

STATEMENT OF RICHARD F. HUEGLI, VICE PRESIDENT, UNITED COMMUNITY SERVICES OF METROPOLITAN DETROIT

Mr. HUEGLI. It is rather difficult to follow Ms. Wright, after her fine comments.

I am director of the United Community Services, which is the Health and Welfare Planning Council for Metropolitan Detroit affiliated with the United Foundation here.

The voluntary sector is greatly concerned about the effect of Federal cuts in services. These cuts come on top of critical problems in this State which is experiencing the Nation's highest unemployment as well as resultant cuts in State services and voluntary funds.

Our people are hurting and need more aid, just at the time that support for assistance of all kinds is being curtailed.

Family violence is up. Outmigration is continuing, but mostly by suburbanites, professionals, and young adults.

Voluntary agencies have a limited capacity to make up for Federal cuts. The approximately $44 million raised by United Foundation to support voluntary services next year could never replace the lost billions in Federal funds. Agencies already have had to absorb reductions in State funds. Eighty percent of their budgets have come from sources other than United Foundation.

Fewer clients are able to make any payment for services. While United Foundation allocations will be up 4.3 percent generally in 1982, this follows a 6.3 percent reduction in 1981.

In spite of reduced resources, voluntary agencies have already responded to the increased demands for services by giving higher priority to helping the unemployed, by seeing more people even though they spend less time with each client, and by trying to eliminate duplication and by reducing less essential services.

United Community Services of Metropolitan Detroit, along with other elements of the voluntary sector, has developed and promoted special efforts to aid the unemployed.

For example, we have distributed nearly 2 million brochures to jobless persons to inform them about available services; retraining, handling problems stemming from economic hardships, and things to consider if relocating.

We have urged public officials to use a priority approach in reductions with priority to the provision of food, clothing, shelter and health services, and to the protection of children, the elderly, handicapped, and mentally ill.

We have promoted community forums and media programs for the unemployed.

We have established a Tel-Help program of taped phone messages giving essential information on services available to the unemployed.

We have allocated funds for other new projects, including outreach counseling for the unemployed and health care for those whose benefits have run out.

Many emergency food programs were among the first affected by the rising unemployment and now they too are facing reduced resources. These programs are in great demand by unemployed people who have worked for years; by young families, and, recently, by children who are looking for help on their own.

The voluntary sector is attempting to help people in dire circumstances because of unemployment; at the same time, it is continuing assistance to many other disadvantaged persons.

New initiatives from business, labor and industry are important. Some areas in which this new effort can be helpful in reducing and preventing hardship are: credit counseling; employee assistance, especially for laid off workers; retraining, similar to CETA programs; contributions to food pantries and to food banks like the Gleaners; preventive health efforts at the workplace and in the neighborhoods; aiding neighborhood groups, to support neighbors helping neighbors—care of children and the elderly; strengthening the capacity of families to discuss their problems together as a means of support and to find solution together.

Thank you for the opportunity to participate in this hearing. You have been very patient. Michigan appreciates your attendance. You carry a heavy burden of responsibility for the lives and livelihood of people. The voluntary sector cannot fill your shoes. It can help but really it can only apply band-aids.

Thank you.

[The prepared statement follows:]

STATEMENT OF RICHARD F. HUEGLI, EXECUTIVE VICE-PRESIDENT, UNITED COMMUNITY SERVICES OF METROPOLITAN DETROIT

I am pleased to be on this panel, and to see the interest of the Ways and Means Committee in the problems of people in this state. Michigan is the hardest hit of all states in the current national recession, a fact seemingly unrecognized in Washington in recent months.

United Community Services of Metropolitan Detroit (UCS) is concerned about the impact on individuals and families of the recession and of cuts in health and social services. As you heard this morning from governmental officials, I will focus on the voluntary sector and the recession's impact on people. I will note some things that have been done, and what may be in the offing.

There is no question that people are hurting. This apparently will continue and actually increase. It is impossible to know at this time the extent of the full impact on people. It is difficult to separate the impact of federal cuts from the effect of cuts caused by loss of state revenue from other sources. The result of decreased resources for voluntary agencies is also difficult to pinpoint. However, all three factors are combining to reduce aid of various kinds at a time when the need of unemployed and troubled people is greater. Many of these people have not yet felt the full brunt of economic hardship. For example, employed AFDC families who have had their benefits reduced will not strongly feel the cuts until January and February when their utility bills force them to decide between paying these bills and purchasing needed shoes or food.

Unemployment is affecting people in many ways. Families are doubling up, often in crowded quarters, and sharing limited income. Increased family tension is disrupting relationships and causing more violence in the home. Migration seems to be occurring mostly on the part of professional and skilled workers, young adults, and suburbanites. Unemployed blue collar workers appear to be resisting relocation outside Michigan.

The voluntary sector of community services has a long history of compassionate aid to the destitute and disadvantaged members of our society. Volunteers historically were the first to help many groups of needy people in our country, initiating programs which later were developed under governmental and organized charitable auspices. Orphanages and foster family care were started this way. Volunteers today also raise millions each year for the aid of disadvantaged people—funds that support many voluntary community services. Since the Great Depression, funds raised and distributed by voluntary United Ways across the country have largely supported services rather than giving direct financial aid.

There are clear-cut limits to the extent that these United Way voluntary agencies can replace lost governmental funding of services. First, there is no way that the approximately $44 million raised by United Foundation this fall can replace the hundreds of millions of dollars lost in governmental programs. Second, the voluntary agencies are also forced to reduce their programs. Nearly 80 percent of their funds come from other sources besides Unitd Foundation, including governmental programs that are being reduced. Income from fee payments by clients are down. United Foundation reduced its overall agency allocations by 6.3 percent for 1981. For 1982, allocations are going up by 4.3 percent, but this still means either fewer staff positions or no salary increases for most agencies.

Elimination of some CETA programs strongly affected these voluntary agencies. UCS had sponsored 250 positions in 40 agencies under CETA, which were lost earlier this year. These CETA workers had provided such things as Braille transcription, recreation in public housing, counseling disturbed children in an institution, and security service at a shelter for abused women.

In these difficult times, the voluntary sector can be of help and is making concerted efforts in this direction.

UCS has urged public officials to give priority to provision of the basic necessities of food, clothing, shelter and health services, and to the protection of children, the elderly, handicapped, and mentally ill.

UCS has published and distributed nearly two million brochures for the unemployed to inform them about available services and aid, job re-training, how to deal with the emotional stress of unemployment, things to consider in relocation, etc.

Community forums and media programs have also focused on problems of unemployed people, and a "Tel-Help" program of taped phone messages to help unemployed workers has been established.

Special allocations have been made for new projects to assist the unemployed, including counseling outreach. These projects may cost a total of $175,000 in 1982.

Many agencies are giving higher priority to helping people with unemployment-related problems, and they are attempting to serve more people with fewer staff.

There is another part of the voluntary sector of community services that needs to be recognized. It includes non-profit agencies which are not affiliated with United Way, such as independent shelters and emergency food programs. Assistance is also provided by individual churches and denominations—St. Vincent de Paul Society, for example. Many of these programs were first affected by the high unemployment, and now increasingly are feeling the impact of federal and state program cuts. These programs are being sought out by more people—unemployed people who had been employed for years, young families, and sometimes by young children alone. Emergency food pantries are not able to keep up with the greater demand, and sometimes shun publicity which would exhaust their supplies earlier each month.

UCS and other coordinating and advocacy organizations are looking for ways to strengthen these "last-resort" programs.

The voluntary sector wants to do more to help the disadvantaged in this period of great difficulty for many people, even though we cannot substitute for lost government funds. To reduce and prevent hardship for people hit by unemployment, we look for new ways of working with business, labor and industry in such areas as:

Credit Counseling; employee assistance, especially for laid off workers; retraining (similar to CETA programs); contributions to food pantries, and to food banks like the Gleaners; preventative health efforts; aiding neighborhood groups, to support neighbors helping neighbors (care of children and the elderly); and strengthening the capacity of families to discuss their problems and to find solutions together.

Thank you for the opportunity to participate in this hearing. I look forward to the panel discussion.

Chairman ROSTENKOWSKI. Thank you, sir.

Ms. Fell.

STATEMENT OF DORIS FELL, DIRECTOR OF FRIENDSHIP HOUSE, AMERICAN BAPTIST CHURCHES, U.S.A.

Ms. FELL. I am also appreciative of the opportunity to be here today to speak in behalf of a small private agency that is attempting to respond to the needs that are in our immediate community.

The committee has in hand a written report that I am going to deviate from, and with that report is a brochure that describes the work I represent.

I am director of Friendship House, which is affiliated with the American Baptist Churches, U.S.A., and located in the Community of Hamtramck.

We call it a family center because we are concerned about the needs of the total family.

Along with programs and services, we are also involved in referral and advocacy because of our setting and, being in Hamtramck, and draw upon the larger metropolitan area of Detroit, to help with the needs of our particular community.

Time does not allow me to emphasize all the impact of the budget cuts that have come our way.

I am willing to mention one area of programing in which we have been particularly affected and this is in our child care department. We have child care for children from the ages of 2½ to 12 years of age.

I wouldn't be surprised if today you had some testimony from others that represent child care programs somewhere in the State of Michigan, and we do serve together as a network of concern in behalf of the young children, and the working parents.

We have been affected by the cuts at the State level and, first of all, the loss of transportation reimbursement from many of the categories of the people that are served.

We have received cuts because of the changes in the eligibility requirements for those who may receive child care assistance and we are particularly concerned in this area with those who may have a low-paying job, and the only assistance they get is child care in order to maintain that low-paying job and therefore stay off welfare.

Also, we have received cuts in the food subsidy program as it comes from the Department of Agriculture, and we are aware through information that has been sent to us, next year it will be cut at least 30 percent more than it is this present year.

Usually in our enrollment of approximately 80 children during the course of a week at our center, perhaps one-third of these children are under the Department of Social Services, but, because of these cuts, we have been struggling in our total budget in relation to the child care department.

We do have one alternative. We could just drop these people and go to totally private paid, but then the question remains, what will happen to these children if we are not able to serve them.

Our concern is also on behalf of some of our colleagues and our child care centers throughout the metropolitan Detroit area who perhaps had 70 to 80 percent of their enrollment as children from the Department of Social Services, and when these cuts have come, some of these have been forced to close their doors after they have served the community for many years in the area of child care.

We have a concern for the children and their needs for quality child care.

We have concern for the parents who need the support of child care in order to stay on their low-paying jobs and make it on their own as they so desperately try.

We have a concern for the parents who are working not by choice, but out of necessity.

Many of these are single parents, over 50 percent of our enrollment is single parents.

They are the breadwinners and they need the assurance of a quality child care center, and we want to provide that for them.

I would like to express my concern on behalf of my colleagues about the premise or one of the premises of the administration's economic program in thinking that the private sector can pick up the tab for the public funds that have been lost.

One of our sources of income is donations from churches, from organizations, and from individuals. These donations have been considerably down this year, particularly because of the changed guidelines in relation to tax deductibility, and also because some people in the middle income bracket are nervous about the economy and are fearful about giving much of their extra money away, indeed, if they have any extra money to give away these days.

Another source that we have approached in the private sector is the private foundations and the corporate funds.

Just recently we sent in 10 proposals for assistance with our anticipated shortfall for next year's operating budget.

Within less than a month, we have had five responses, all rejections, and practically all saying the same thing, "We are inundated, overcommitted;" and, in some instances, "Don't even come back to us for 3 years."

We realize that this is happening as more and more of the agencies are forced to go to these private sources for assistance. That is not a simple solution.

We talk about voluntarism, and we believe very much in that and we are very grateful for it. It has been a great support to our ministry throughout the years, but by the same token, and again not the total solution to losing the funds so desperately needed.

Volunteers aren't that readily available. Many of the volunteers are working today.

Also, in programs such as a quality child care program, we need trained people assisted by volunteers, but there are capacities within the staff where we need professional leadership and if we are going to have volunteers take some of those roles, it means training and that means time for the existing staff, and that also costs money in order to provide that training program.

If we are forced to shut down our child care center because of the lack of funds to continue with more anticipated cuts coming down the pike in the next year or two, we would not only lose a child care center where children could come and be cared for while their parents are working, but we also lose the supporting services of a parenting program that is an extension of our child care department, counseling, referrals and emergency aid, which is available to all the people who come to our child care facilities.

Also another area, we are receiving more and more people coming to our doors in search of food, emergency aid, and assistance because of the resources that they no longer have available to them.

Our message comes today from the private sector, a small center seeking to help the people at their point of need. Please don't let any more cuts come.

Thank you.

[The prepared statement follows:]

STATEMENT OF DORIS FELL, DIRECTOR OF FRIENDSHIP HOUSE, AMERICAN BAPTIST CHURCHES, U.S.A.

EFFECTS OF FEDERAL AND STATE BUDGET CUTBACKS ON FRIENDSHIP HOUSE FINANCES

During the 1981 fiscal year Friendship House experienced severe economic distress, resulting in a 20 percent reduction in staff hours during the fall months.

Several of the precipitating factors leading to this crisis have been germane to our fiscal structure in the past. Traditional sources of income from donations and fees combined, totaled a loss of 10 percent year-to-date. In our child care program, loss in income from cuts in transportation costs for Department of Social Service (DSS) children of working parents and parents in training programs was 50 percent or $5,000. Inflation-ridden operating costs have compounded income losses by increasing 10 percent this year, and are expected to increase upwards of 15 percent in 1982. Energy costs alone, without deregulation, are predicted to climb 50 percent next year.

We are facing the next fiscal year with no signs of relief and with grim warnings of more drastic cutbacks in our sources of income. Federal food subsidy for our day care program will be slashed 33 percent. There will continue to be no transportation reimbursement for DSS children of working parents or parents in training for jobs. There are projections in the 1982 state budget to eliminate these same parents fron any child care assistance at all. Other DSS parents will be pressured to seek work or training for work at the same time no child care will be available to them. If our working parents or those in training are cut, Friendship House will lose 34 percent of its child care enrollment which will mean a considerable loss of income.

In anticipation of these losses, we have considered our alternatives: (1) For many organizations such problems are dealt with by merely passing on increased costs to the consumer. In our case the consumers are by definition already overburdened by economic stress. The essential purpose of our non-profit program has been to provide services to those who would otherwise have no services.

(2) We have sought increases in private donations but find middle-income donors are reluctant to let go of any excess monies in these uncertain inflationary times. Larger donors will be discouraged by recent adjustments in tax-deductible, charitable giving guidelines.

(3) We have sought assistance for operating costs through private and corporate foundations. Of ten proposals submitted in October, we have received rejections from four even before their boards of directors met. Each letter clearly stated that "either their funds are already committed" or "the sheer volume makes it impossible for us to respond favorably to every one, no matter how worthy we may consider the proposal". Unfortunately we hear the same strain from the United Fund.

We are left with a dilemma. The public sources are pulling back and directing us to the private sector. The private sector claims they can't pick up the tab. Those who lose their eligibility for food stamps, general assistance, social security disability, emergency needs, extended unemployment benefits, already have and will increasingly be calling us for referrals. It has become a full-time job lately to find out what, if any, sources of help are left.

We need Friends, too!

Be a Friend of Friendship House and its work and ministry. Help to provide skills and learning to people of all ages, leading to a more productive life. Help to enable people to find meaning in life through counseling and group participation. Help to provide services through total community cooperation.

FRIENDSHIP
HOUSE

Celebrating 50 years of Community service!

FRIENDSHIP HOUSE

Friendship House is a community service center — caring and involved in providing creative-living programs, social services and total counseling for children, youth and adults of any race, creed, color, sex, handicap or national origin.

Involved in a Community helping itself!

The Center works as a team with agencies, organizations and Churches sharing our common concerns of human needs.

- Catholic Social Services
- Child Care Coordinating Council
- Childrens' Diagnostic Institute of America
- Coalition for all People
- Communities United for Action
- Council for Nutrition of the Elderly
- Detroit Roundtable for Christians & Jews
- Group Health Plan of Southeast Michigan
- Hamtramck Human Relations Commission
- Hamtramck United Social Services
- Legal Aid and Defender Association of Detroit
- Metropolitan Detroit Child Care Association
- Michigan Association of Child Care Administrators
- National Association/Education of Young Children
- People's Community Services
- Project READ
- Senior Citizen Day Care Center
- Southeastern Area Minister's Council
- Soroptimist International of Hamtramck
- Wayne County Community College
- Wayne County Health Dept.

Our doors are always open for your visit, please call if you would like to see our center in action.

FRIENDSHIP
HOUSE
2031 Caniff, Hamtramck, Michigan 48212
Tel. (313) 365-5561
Doris M. Fell, Director

You've got a friend.

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Friendship House means love.

The center was begun in the fall of 1929 out of the caring of an American Baptist missionary, Minnie Shepard. She convinced the Detroit Mission Society of a need for continued work in the Hamtramck area.

In 1969 the present site was purchased and the current building was dedicated in 1973 with funds provided by the World Mission Campaign, Detroit Association of American Baptist Churches and The Kresge Foundation.

Programs and services have always filled the physical building to overflowing. Today this is true as people of all ages and needs have come to know that they've got caring friends at Friendship House.

Friendship House is a non-profit organization affiliated with The American Baptist Churches, operating under a Board of Directors with representation from the business and social work professions, as well as concerned citizens of the Hamtramck community and Metropolitan Detroit.

Programs for Children

Education:

- Preschool and Kindergarten, half day sessions for ages 2½ to 5.

Socialization and care:

- Day Care, all day, ages 2½ to 5.
  - Latch Key, afternoon sessions, ages 6 to 12.

Every child is cared for in a secure, educational atmosphere for the complete day, and all programs are licensed and certified by The Michigan Department of Social Services.

Programs for Youth

Education:

- Tutoring in the 3 R's and basic education.
- Special interest classes of piano, arts and crafts.
- Training programs.

Recreation:

- Supervised play and sports activities.
- Trips to museums, cultural centers, parks and beaches.

Programs for Adults

- Basic Education, GED diploma.
- English as a Second Language.
- Special interest classes in Hobbies, Arts & Crafts, Bible Studies.
- Wayne County Community College Courses.
- "Parents Helping Parents" offers support for creative family living.

Especially for the Seniors

- "Young at Hearts Club," over 55-year-olds meet weekly for bus trips, speakers, crafts, films and volunteer projects.
- Free Bus Cards
- Legal Aid
- Vial of Life Kits

. . . and programs for All

- Counseling ● Family Aid ● Referral to a network of agencies.
- "The Family Shop": quality used clothing, household items, books and toys. Located at 3417 Caniff, 893-5844, open 10:30 to 4 weekdays, 10 to 2 Sat.

Be a friend of Friendship House...

Yes, *please enroll me as*

☐ *a Friend (contributing $5 a year).* ☐ *a Friend Through The Year (contributing $20 a year).*
☐ *a Friend In Deed (contributing $50 a year).* ☐ *a Special Friend (contributing $100 a year).*

MISS MS
MR MRS (Please Print)

STREET ADDRESS

CITY STATE ZIP

HOME PHONE BUSINESS PHONE

COMPANY

CHURCH AFFILIATION

☐ I'm interested in your volunteer program. Please telephone me at

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Chairman ROSTENKOWSKI. How are you managing with the present cuts?

Ms. FELL. We have had a very difficult time this year. At the end of the summer we had to cut back the staff by 20 percent because of the income which was down from the church source and the cuts that came, we did manage to go to our churches and receive some extra offerings and assistance to help us over this emergency time, but we all know you can't continue to cry wolf.

We know we have to have long-term funding to continue the program.

Chairman ROSTENKOWSKI. To say we are not going to vote for any more cuts—that is being optimistic.

Can you make it? Do you think the private sector can do what the President suggested, pick up the slack?

Ms. FELL. It all depends on how much slack they have to pick up.

If you are talking about the private foundations, they are inundated today. Everybody is going to them.

One of the most well-known private foundations in the area which normally has a 3-month period to make application, and they have cut that to 1 month.

Over a period of time, perhaps the private sector can pick up more.

Chairman ROSTENKOWSKI. Unemployment goes up, and we got problems?

Ms. FELL. Yes.

Chairman ROSTENKOWSKI. Mr. Gibbons.

Mr. GIBBONS. Can you give us some idea of a cost per day per child in a type of setting like you have?

Ms. FELL. I am afraid I wouldn't be able to. My child care director would be the one that would have those figures.

This year it is costing us $1,100 per day whereas 2 years ago it was $900 a day to keep our doors open. That is the cost to keep the doors open only.

Mr. GIBBONS. Supply it for us, a cost per day per child.

Ms. FELL. I would be happy to do that.

[Ms. Fell subsequently responded that the cost to care for a child is $9.60 per day.]

Mr. GIBBONS. While we deal in billions, we can understand it is better if we put a figure for a child out there and see what it costs per day.

In your centers, how do you charge the parent, by the week?

Ms. FELL. Yes, we do have a fee per week.

Mr. GIBBONS. An appropriate fee based on a sliding scale?

Ms. FELL. In our instance it is not normally a sliding scale.

We are in the average realm in the whole area of Detroit, but if there are some having difficulties, we try to seek some scholarship aid for them.

Mr. GIBBONS. What kind of children do you cater to and serve and what kind of services do you give to that child?

Ms. FELL. In the child care department, there are three different programs, for the little children under the age of five, and then we have a kindergarten, certified kindergarten, an extension of day care, and we have Latchkey, which is the school age children of working parents.

We pick them up from school and have them involved in a program. The parents pick them up after the program.

The other programs we have are mostly directed toward parents, but support type services for the total family, support groups for the parents, helping them with their own difficulties, drug abuse, spouse abuse.

We work with the total family as we work with the children.

Mr. **Gibbons.** I would imagine the cost per child is pretty high?

Ms. **Fell.** Yes, I will be happy to get those figures together and send them to the committee.

Chairman **Rostenkowski.** Have you had to cut back any services—picking up the children from the school—well, have you had to curtail anything at all?

Ms. **Fell.** Some of the parents had to drop their children because they couldn't afford to pay for the transportation that was taken away.

In some instances if we did have some scholarship funds, we kept them on as long as we could, but our funds ran out.

We had to cut back because the enrollment has been down for the younger children because of these changes in eligibility requirements for them to receive child care and so, they have to drop out of the program.

Chairman **Rostenkowski.** Mr. Bailey?

Mr. **Brodhead.** Mr. Chairman, I want to thank you for the statements on voluntarism.

I don't know what the President had in mind as a proper concept with the kinds of services, costs and whatnot that have to be provided. He may have been alluding to help thy neighbor types of things, but that help is very limited in the recessionary times.

Ms. Fell, this may sound like a tangential question, but you spend time in the Friendship House—does the name Max Pitlosh mean anything to you?

Ms. **Fell.** John and Frank does. Frank has been involved as one of the city department heads, and John was a former councilman, but I don't know Max.

Chairman **Rostenkowski.** The record will be left open for a month for any pertinent information that any of the witnesses feel they would like to include in the record.

I would like to, on behalf of the membership of the House of Representatives, the members of the Ways and Means Committee, and those members of the Michigan delegation that joined us, I would like to thank all of you for your concern.

I am sure that much was learned and that we will carry your message back to Washington that I think will show some genuine, thoughtful concern about just what can happen in the future if we do cut the budget further.

It has been rewarding, educational, and on behalf of the entire membership of the House of Representatives, we express our gratitude to Mayor Young and all those people who participated.

Mr. **Littman.** May I ask the chairman and our Congressman a question?

I have watched the Detroit area economy along with our chamber for close to 30 years, and I have seen a people with resources richer than most other States, an economy that can grow and out-pace the national economy because of these people and capital resources, if there are low-inflation rates.

We simply can't do that and provide in the private sector the giving that you have heard, the cries for more jobs and a better place to work, if the inflation rates are accelerating.

Those are times hopefully that are past.

Please orient policies for the long-term good of us toward lower inflation rates, so we can reemerge as an economic power, as an arsenal of democracy. Please.

Chairman ROSTENKOWSKI. This meeting stands adjourned.

[Whereupon, at 4:15 p.m., the hearing was adjourned.]

[The following were submitted for the record:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., December 4, 1981.

Hon. WILLIAM M. BRODHEAD,
U.S. House of Representatives,
Washington, D.C.

DEAR BILL: Although I am unable to be with you today, I want to take this opportunity to commend Chairman Daniel Rostenkowski, you, and the other Members of the House Ways and Means Committee for scheduling these crucial field hearings on the effects of federal budget cuts across the country and how they impact on our constituents.

In mid-August, President Reagan signed into law the now-infamous reconciliation legislation taking away $214 billion from Social Security, Trade Adjustment Assistance, and other programs for working and middle-class people, while at the same time extending $286.1 billion in giveaways primarily to corporations, Big Oil, and wealthy taxpayers.

Many families felt the cuts very directly. More than a million families found they were no longer eligible for food stamps. When our children returned to school in September, they were forced to pay school lunch prices which had jumped by 25 percent. At our colleges and universities, students found a diminishing fund for student aid programs, which gets smaller and smaller all the time.

The Reagan program—one which most economic experts agree is doomed to failure—is no longer just a threat. It's a reality. The battle of the budget is now shifting to state and county government and city halls all across America. State by state, city by city, the battle rages over how many layoffs and how much misery will result because of the massive federal cuts.

If President Reagan has his way, this is only the beginning. Last month he proposed $13 billion in additional cuts for 1982. Then in 1983 and 1984 he wants an incredible $48 billion more.

I will be anxious to read the testimony and comments from your hearings. I hope that President Reagan will be willing to do the same. If the Administration continues to plunge ahead, I am afraid that the cost to the American people will be incalculable, with the people of Michigan paying a much higher price than anywhere else in the nation.

With kind regards, I am,
Sincerely yours,

WILLIAM D. FORD,
Member of Congress.

DETROIT, MICH., *December 7, 1981.*

DEAR MADAM: I am writing in regard to my financial difficulties that I am experiencing at this time. First of all, my gas has been shut off since August and the bill that I owe is 1600 dollars. My electricity and water have also been threaten to be discontinued.

I have been laid off my job for almost two years, so I don't earn any income. The only income that I do receive comes from my daughters which A.D.C. gives them for rent. I receive $160 worth of food stamps to feed 13 people, the rent money I receive has to go for food when the food stamps run out.

Any help or advice that you can give me would surely be appreciated.

Sincerely,

Alberta Abernathy.

Inkster, Mich., *December 8, 1981.*

Distinguished Sirs of the Ways and Means Committee of Congress: In reference to the many policy changes implemented by the State of Michigan October, 1981, the new policies have caused unnecessary hardships on both the client and Social Services worker.

For example my situation: all general assistance clients (except medical exemptions) living in the home of a relative, must have the relatives income and resources budgeted to determine the needs of the client. Ridiculous! My mother lives with me, my gross income for the month is $1,076.00 I support myself, two children, a tiny house with a huge house payment, outrageous gas and utilities bills, a sickening grocery bill, an unbelievable car payment and insurance for a four yr old car! My mother was denied general assistance because a 150% of our family of four needs is $874.00. She was also denied food stamps because the gross income limit for a family of four $916.00 a month. Why don't you folks control these skyrocketing prices instead of squeezing the poor citizen to death, there's not much more a body can stand.

I also disagree with the new policy of retrospective budgeting. What sense does it make to change a clients budget three months later? I can understand adding money to the grant three months later to discourage constant budget changes. But there is no way it benefits the state to continue sending money for three months when a family member dies or leave the home. As a result of the new policy the client is no longer supplemented when their needs change. Now the client is double penalized no supplement, plus a three month wait to receive their needs in the budget.

The new policy of retrospective budgeting leaves a wide margin for high error percentages, also costing State and Federal funds. The clients are responding violently to these new policies. This endangers the worker's lives. I believe if the State needs suggestions on where to target in on savings they should ask for suggestions from the workers.

I am terribly upset about our Government going down the drain. I've had the opportunity to speak with people from all walks of life, that feel the same as I do. We all recognize the fact that the budget has to balance, but not on the backs of the average citizen. I you want to do some worth while control these outrageous—prices!!

Ms. Rosella Badget,
Average Voting Citizen.

P.S.: Have a Merry Christmas, I won't. Christmas is for the wealthy only!

Detroit, Mich., *December 7, 1981.*

Dear Sirs or Congressman: My Congressman is Mr. Crockett from the 16th District in Detroit. I am a senior citizen. 65 years old and I think I am being mistreated. I have worked in Detroit for more than forty years, and I have never drawed a pennies worth of compensation or nothing of the kind, because I have really worked all this time. I was paying all kinds of taxes, and pension and when I was working in Highland Park, I paided Highland Park taxes. Detroit taxes, State taxes, Government taxes, Old Age Pension and S.S. I paided all these taxes except when I was working in Detroit all but on one. I worked in one place 14 years, at the Parkview Cleaners 6 days a week, now they give me $302.00 a month. Substracting 11.96 for medicare and I get a $38.04 pension from my nephew, which started off at $73.00 a month. Everytime I get a raise in S.S. they cut the check also, my medicaid. My stamps was cut to $11.00 since they have been raised to $42 last month. But I can't eat 3 meals a day for $42.00. I am sending you some of my mail. But I can't begin to tell you how bad the Government has done me. I have diabeties, heart condition, and High blood pressure. I am sending an article that I cut out of the paper, Now the men are ask for a raise and they get $32,000 a year and they claim that they can't live out of that. Now I must make it out of $3,000 or less a year. I have been in the hospital 5 times this year and lost my right eye, also. Now what could they be doing but eating, sleeping, and sitting nearly all day like me. We're all about the same age. They could not be desiring to much. Here's hoping you can help me, because if it don't be for some of my neighbors and church I would starve, and they won't do it forever.

Your's truly,

CHARITY BROOKS.

[Newspaper article]

Six State lawmakers could receive thousands of dollars in federal aid because they are being forced out of a Lansing motel. Capital Park Motor Hotel is being converted to a federally financed home for the elderly. That entitles the officials who use the motel as their local residence to receive up to $4,500 in relocation aid. The lawmakers earn $27,000 a year and already receive a $5,200 annual living allowance.

STATEMENT OF REPRESENTATIVE BOBBY D. CRIM, SPEAKER OF THE MICHIGAN HOUSE OF REPRESENTATIVES

Mr. Chairman, Members of the House Ways and Means Committee, welcome to Michigan.

My name is Bobby Crim. I am the Speaker of the Michigan House of Representatives. It is reassuring to know that you are assessing the impact of the Reconciliation Budget before opening the stable doors for the second Trojan horse.

The Reconciliation Budget performed radical surgery on federal aid to the states. We have all recently learned—compliments of the Atlantic Monthly—that the chief surgeon didn't understand the basic budget figures supplied to you to perform the delicate operation.

Your efforts to determine the federal budget impact on the states will undoubtedly be frustrating. I think that you will find that the states are still trying to figure out what hit them.

The Administration has made it difficult—if not impossible—for the states to implement the block grant programs passed by the Congress. It was clear, for example, from both House and Senate action, that the Congress supports a decent level of funding for the Low Income Energy Assistance Program. Under even the lower Senate figure, Michigan would receive $90 million for the program. But the Administration is allocating money to the states as if the President's proposed 25 percent reduction in the program had been adopted. We cannot afford a long, drawn-out fight between the Congress and the Administration on the issue of deferrals and impoundment. Winter is here. People, particularly the elderly, are cold. We need full funding, and we need it now.

Two months into the fiscal year, the Administration has still not implemented the Public Health block grants. Although the state has completed all the required paperwork, we have still not recieved any money for the health block grants. We have this state of uncertainty, even though the Administration sponsored a road show around the country in August and September, to explain to state officials that the block grant programs would be implemented in a very streamlined fashion, and to urge the states to assume administration of the block grants immediately. We were almost promised that we merely had to submit a "Dear Ronny, please send money" letter.

I desperately hope that you will be able to determine the financial impact of the budget action you have taken. However, I also plead with you to understand that this state is further victimized by an irresponsibly slipshod and nonchalant carrying-out of the Congressional budget action. The only thing more devastating to Michigan than the negative financial impact of the budget is that this Administration is not even administering the budget as written. Please tell me how we find out what has been done and how it affects us! Do we guess? Do we deal? Do we plead? Do we wait?

As you attempt to measure the impact of the Congressional budget action on the states, I urge you to take seriously the President's commitment to federalism. I hope that you take his commitment more seriously than he has. The nation is a federation of 50 states which are not homogenous. Budget reductions affect Michigan differently than they affect Texas. A state enjoying prosperity will have the ability to substitute state dollars for lost federal revenues. A state in depression, such as Michigan, will not. We will not have the option to replace federal dollars with state funds. We will be forced to accept the service reductions imposed by the federal government, regardless of their impact or desirability, because of the state of our economy.

Our 1982 general fund appropriations increased only 3.4 percent over 1981. Adjusted for inflation, that was a real reduction of 4.7 percent in state-funded programs. It is likely that further cuts will be mandated by continued deterioration of state tax revenues.

We have the unhappy claim to the highest unemployment rate in the country. Our unemployment rate of 13.4 percent compares to a national rate of 8 percent Because our rate is so high, our welfare caseloads are also high. In fact, we have the highest percentage of welfare population per thousand in the whole country.

Our AFDC caseload grew from 196,000 in 1979 to 238,000 in 1981. Our General Assistance caseload grew from 56,000 in October of 1979 to almost 111,000 in 1981. The General Assistance program is funded entirely with state dollars. It provides subsistence-level help to people who don't qualify for the aid programs provided by the federal government. It helps people who are the last hired and first fired, who are poor, but not poor enough to meet federal guidelines.

Michigan's depression has lasted three years. U.S. auto production in October was down 20.7 percent over October of last year. And, the U.S. Department of Commerce predicts that automakers will lose $1.4 billion this year as a result of skidding sales that are down 31 percent from 1978, the last peak year. That is stark reality to an auto dependent state.

We have undertaken serious efforts to diversify our economy, but we will be hard-pressed to attract any service or high technology industry if the infrastructure that determines a community's quality of life is totally dismantled. Skilled industrial workers will neither enter nor remain in a state which has low quality schools, unmaintained roads, or a human service network in disarray.

Our state constitution requires us to have a balanced budget, so we understand too well the pain of cutting budgets. We have just learned that our revenues are $30 million below projections for the month of October. I have presided over a budget process which resulted in a billion-dollar cut from programs over the last 18 months. Proportionately, $1 billion is about 20 percent of our budget. If October revenue levels hold, we will face another massive cut in January.

Many of the Reagan policies which the Reconciliation Budget implemented exacerbate this state's problems. The policies are pro- rather than counter-cyclical. They increase the percentage of federal funds for defense rather than establish a reasonable balance between defense and human need. They enhance the drain of dollars from the established industrial states to the Sunbelt. For every dollar of revenues Michigan citizens pay in federal taxes, we receive 66 cents of federal aid in return. No state does worse, in spite of our efforts to alter the formulas by which federal tax dollars are distributed across the land. Michigan citizens are generous contributors to the federal government. We receive relatively little in return. We want a fairer return—and we would prefer to have the return in the form of bread and butter as opposed to guns.

If it is your decision that the federal government can no longer play the role of our good Uncle Sam, I urge you to consider targeting funds in a more sensitive and sophisticated manner.

For example, a state with Michigan's unemployment rate should not be forced to suffer a massive cutback in CETA funds. Our FY 82 allocation for CETA is $188 million less than our FY 81 allocation—a 51 percent reduction, a loss of approximately 18,000 jobs. Stop for a moment and focus on the policy you have enacted—the state with the highest unemployment rate will lose over half its CETA funds—18,000 jobs. What kind of policy is that? The loss is devastating to the people on the program, because our economy cannot absorb them. The loss is devastating to the public service system, because many of the CETA slots were allocated to the delivery of public services. CETA-employed people provided transportation for the elderly to day care programs, which lost not only CETA employees but also funding under the Social Services block grant. CETA-employed people staffed runaway shelters, which also lost funding from the same block. Many of the CETA slots were allocated to distressed cities. Those positions shored up fire and police departments. They made garbage collection more efficient and human service delivery possible.

The loss of CETA positions will increase the demand on other programs and cost federal dollars. A few thousand people who lost CETA money will qualify for AFDC. Many more, who are hungry but not "truly starving," will qualify for our General Assistance program. A good number will qualify for food stamps, even under the new standards.

In pouring over the infamous Stockman papers, I have found no evidence of any recognition of the increased costs of some budget reductions. If you cut AFDC and TRA and extended unemployment benefits and day care services, it becomes clear that reductions in one program will cause increases in another. Massive cuts in long-standing social programs have to cause dramatic demands on other programs. If budget decisions urged by the Administration increase demand for food stamps, the Administration cannot be allowed to characterize the food stamp program as a runaway program. The offsetting results of cuts become extremely important as you evaluate the impact of the caps that the Administration has proposed for Medicaid and AFDC.

Rather than enhance our ability to sustain employment, the fiscal policies contained in the current federal budget not only eliminated CETA jobs, but also cut incentives to work that had been built into the welfare system. Reductions in AFDC eligibility and social sevices funding resulted in many of the working poor losing day care services.

The imposition of a penalty tax on outstanding debts incurred to fund the Unemployment Insurance system has emasculated our chances for economic revival. We have borrowed more than $1 billion to pay unemployment benefits. Unless the long-promised miracle of Reaganomics turns the national economy around within the next month, we will have to borrow additional money. Our ability to repay the loan depends on a reduction in unemployment. Employers will be reluctant to come to Michigan or stay in Michigan, when faced with additional unemployment taxes because of the outstanding loan. The interest imposed on the outstanding loan balance above will be more than $50 million by 1985.

The President had made very public his belief that the states are the entities responsible for serving human needs. This state had never shirked that responsibility. We have realized for years that the federal government has not had adequate programs to serve all our needs. Michigan operates a General Assistance program, which we have been forced to cut back because of the state's economy. At a time when we have to cut back state-funded programs, with no substantial decrease in our payments to the federal government, it is impossible for us to pick up federally dropped programs.

The Brookings Institution has recommended the creation of a fiscal safety net to be positioned in the neediest places that are likely to suffer adverse consequences from cuts in federal aid. The idea isn't novel. We have long recognized that we need an equitable regional economic policy.

We have a regional economic policy. Unfortunately, it can best be characterized as "The Sheriff of Nottingham's Conquest of Robin Hood". Funding formulas for the distribution of human services dollars are inequitable and unfair. They were not altered in the Reconciliation Budget, although the Medicaid budget fortunately gave some recognition to a state's unemployment problem. The basic formula is based on the assumption that a state that has a high per capita income relative to the national per capita income has a greater capacity to bear the cost burden of Medicaid and AFDC. This is simply not true. Michigan's federal reimbursement rate is 50 percent. Texas' is only 55.75 percent. Louisiana's is 67 percent. No one can seriously argue that Michigan is in a better position to fund welfare programs than these prosperous states. Both of these states raise significant revenues from their natural resources, to the extent, for example, that Texas has no personal or corporate income taxes.

The average matching reimbursement rate for the South is 66 percent; for the West, 57 percent; for the North and Midwest, 55 percent. The Library of Congress has estimated that if Michigan had the average reimbursement rate of the South and West, which comes to 61 percent, for FY 81, we would have realized $244 million that we did not receive. If the reimbursement formula were just and equitable, Michigan would not be facing the critical fiscal realities we face today to nearly the same degree.

One of the unintended consequences of the Economic Recovery Act of 1981 is reduced state tax revenues. The Michigan income tax code utilizes the federal definition of adjusted gross income directly from the taxpayers federal tax return. Our Department of Management and Budget has estimated that alteration of the marriage penalty will cost Michigan $50 million, combined pension provisions will cost us $10 million, and capital cost recovery and other business provisions will cost $10 million, and capital cost recovery and other business provisions will cost $25 million, in the first full year of the program. We will thus lose about $95 million in revenues in FY 83. Any attempt to change our tax code to rectify this unintended (at least we hope it was unintended) result will be perceived by the public as a tax increase, and an attempt to "take away" what the federal cut gave.

One of the hidden results of the Economic Recovery Act, certainly unintended by the Congress, was the fat federal subsidy for business which gives businesses the right to sell excess tax deductions to each other, allowing a prosperous company to sell its paper losses for hard cash, because the tax laws have enough loopholes to allow those companies to pay no taxes at all. After the hard-sell tax cut that the President promised and delivered to the country, it is politically impossible to impose higher state taxes. And the President has not returned the ability to raise tax revenues to the state. In fact, many of the "revenue enhancers" suggested by the Reagan Administration seriously undermine the state's ability to raise revenue. So, we have arrived at Catch-22. The President cut taxes and services; placed the responsibility for human services squarely on the states; cut taxes in many states; rhetoricized the tax-cut issue to the point that almost every American feels that a tax cut is his or her birthright; cut employment services and subsidies; reduced energy assistance money, food stamps, welfare aid and the infrastructure that supports the whole service delivery network; but left our poor, hungry, aged, and disabled with us.

As you proceed in your attempts to create fiscal sense out of the havoc created by the President, I urge you to set as your first priority a restructuring of the reimbursement formulas to achieve equity. Secondly, I urge you to target both human service and defense dollars to those areas of the country most unable to respond adequately to national and international economic pressures.

Finally, thank you for coming here to hear from the vocal majority. We would like to impress upon you that you indeed have a mandate from the people—a mandate to be truly American—to be generous and magnanimous, and proud to care for the elderly, the tired, the poor, the huddled masses yearning to be free.

APPENDIX A

THE RELATIVE IMPACTS OF THE FEDERAL BUDGET REDUCTIONS IN MICHIGAN AND OTHER STATES

On October 1, 1981, Michigan began to absorb the federal budget reductions. In light of the fact that the Michigan economy has been in a freefall for more than two years and that the state's fiscal position has deteriorated continuously during this period, Michigan may not have the option, as to other states, to assume funding for some of the more vital services. In other words, Michigan's only option would appear to be additional service retrenchment.

Historically, Michigan has received from Washington far less than what many consider to be its "fair" share of federal spending relative to other states. The table below depicts quite clearly the fact that Michigan has received less in federal spending than its citizens have sent to Washington in tax dollars. Compared with other states during the fiscal year period 1975–79, Michigan has either ranked last or next to last and in only one year (FY 1977) has it received as much as .70 cents back for each dollar sent to Washington in taxes.

STATE OF MICHIGAN'S FEDERAL BALANCE OF PAYMENTS: FISCAL 1975–79

Fiscal year	Spending/tax ratio	State rank
1975	0.65	51
1976	.64	50
1977	.71	50
1978	.66	51
1979	.66	51

Source: Northeast-Midwest Institute, Federal Balance of Payments, Regional Implications of Government Spending, August 1980.

The recently adopted federal budget and tax reductions not only fail to halt the trend of less federal spending in Michigan than in other states, but, unfortunately, in several important instances tend to exacerbate it. A number of factors account for this phenomenon, the most important of which include:

Defense spending.—There is a tremendous imbalance in federal defense spending which favors the southern and western states. For example, in 1979 Michigan had approximately 4.2 percent of the total U.S. population but only 1.1 percent of the nation's principle military installations and less than 1 percent of proposed military construction contracts. Moreover, the large gap that has existed has grown in recent years—defense spending for the period 1975–1980 increased 50.2 percent nationally but only 47.8 percent in Michigan. Although Congress has moved recently to permit greater targeting to states with relatively high unemployment rates, the current disparities will improve only marginally.

Matching formulas.—In determining state allocations of federal funds for such programs as Aid to Families with Dependent Children and Medicaid, a variety of federal formulas have been developed. Historically, these formulas have relied heavily on such measures as population and per capita income and have given little, if any, weight to such factors as unemployment, relative tax effort, tax capacity, or relative welfare burden. As an example, a commonly used measure for allocating federal dollars is per capita personal income. Commonly cited weaknesses of this measure are its failure to account for regional cost of living differences, relative tax burdens, and transfer payments. If the measure used were to account for such factors, Michigan's income rank would drop from 12th highest among the states to 21st. In contrast, Texas would move from 29th to 6th. With respect to federal matching percentages, Texas currently receives a 55.75 percent for the AFDC and Medicaid programs. Michigan, on the other hand, receives the federal minimum of 50 percent for each program.

Primarily because of these factors, Michigan consistently ranks last or next to last among the states in terms of the federal balance of payments. Unfortunately, very little has been done in the FY 1982 federal budget to alleviate this trend and, in fact, several of the federal program cuts will serve to reinforce it. The following is a summary of some of the more important of these reductions:

CETA and extended unemployment benefits.—Over the past two years Michigan has had the nation's highest unemployment rate. Because the downturn is worsening, the state's unemployment rate is again rising sharply—currently standing at 13.4 percent with over 602,000 Michigan workers without jobs. Primarily because of this situation, Michigan has had to rely more heavily than other states on the public service portions of the CETA program and extended unemployment benefits for those who have exhausted regular unemployment benefits. The FY 1982 budget has eliminated the public service components of CETA (Titles II-D and VI) and has altered the "economic distress" measure to the point that Michigan lost its extended benefits program as of November 28, 1981. The earliest that payments can resume under this program is March 6, 1982. The results of these actions will be harsh on Michigan. For example, Titles II-D and VI of CETA last year provided over $200 million in income for over 27,000 CETA job recipients. Efforts to date by the Michigan Employment Security Commission to place these recipients in private sector jobs have resulted in less than 20 percent success rate. Given Michigan's current employment situation, this result is not surprising. With respect to extended benefits, more than 34,000 workers were cut off from payments when the program triggered off. Given the state's current high rate of exhaustions from regular benefits, unemployed Michigan workers could lose as much as $100 million in benefits over the next thirteen weeks. The loss of these programs, therefore, will have a negative impact on many thousands of Michigan workers. For many, the only recourse will be to seek state welfare assistance and to rely more heavily on the federal food stamp program. In light of the fact that Michigan's welfare burden is already the highest in the nation, these federal actions will serve only to further increase that burden.

Trade Readjustment Act benefits.—This program was created in 1962 under the principle that the federal government bears a responsibility to workers hurt by imports. As shown by the table below, Michigan is by far the most heavily reliant on this program.

Ten States with the largest number of workers receiving TRA—April 1975 to December 1980

State:	Workers
Michigan	195,200
Ohio	107,400
Pennsylvania	90,200
New York	69,400
Missouri	44,100
New Jersey	42,700
Wisconsin	36,300
California	35,700
Indiana	31,500
Massachusetts	27,300

Modifications in the TRA program will reduce benefits to Michigan claimants by an estimated $150-$175 million and will impact approximately 34,000 persons in 1982. As is the case with CETA and the extended benefits program, many of these individuals will have no recourse but to seek assistance from the state's already overburdened welfare system.

Urban development action grants (UDAG).—The purpose of this program is to help create employment and ease physical deterioration in our urban centers. Because this region of the country contains a significantly greater proportion of older urban centers, the UDAG program favors Michigan and the states of this region. Although the program will be continued for the coming year within the Community Development Budget, total allocations for the program have been reduced. In that the program provides local jurisdictions with "up-front" money to capture private investment, this loss in Federal dollars will result in less private investment—and less jobs.

Low income weatherization.—Although this program was not incorporated into a block grant, its funding was significantly reduced. It is estimated that Michigan will receive $10-$11 million this year compared with $18 million last year. In addition, this program appears to be targeted for further cuts in order to hold the federal budget deficit in line with ealier projections. Little needs to be said regarding the impact on Michigan when one considers that we lie in the heart of the frostbelt. With average household energy expenditures varying almost 300% between states in Northeast-Midwest regions and those in the Southwest, low income and fixed income households in colder areas are hit the hardest by escalating energy prices.

While additional areas may be identified as we go along, these currently appear to be the most significant in terms of disproportionate federal reductions. By way of summary, it should be noted that:

Michigan ranks last among the states in terms of federal spending versus taxes sent to Washington. The federal budget reductions do little to halt this trend and—in fact—appear in several instances to worsen it.

The basis premise behind the President's program is economic growth. Many question whether the approach outlined by the President will achieve this objective. It is important to note, however, that even if the program does work as anticipated by the administration—its benefits will not be felt until several years out. Hence, the budgetary and programmatic implications of these reductions will be most severely felt in FY 1982 because there will be little economic offset with respect to reduced inflation or increased economic growth. In Michigan, we will be hard pressed to cope with many of the reductions without cutting additional government services.

The state will be in the unfortunate position of being squeezed from two sides—federal cuts in local aid will mean even greater pressure on states to cover local costs at a time when our state fiscal situation is perilous.

The "new" federalism envisions the states and localities as picking up the responsibility for many of the areas from which federal dollars are being cut. However, given that Michigan already has the nation's highest unemployment rate, the nation's heaviest welfare burden and continues to face large budget deficits, it appears that ths state's only option is further service reductions. Thus, the heavy reductions in such key areas as welfare, unemployment benefits and housing will create severe problems for many Michigan citizens.

Appendix B

MI: MICHIGAN INDICATORS

A Summary of Key Economic and Budgetary
Variables for the State of Michigan.

Prepared Monthly by:

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MICHIGAN ECONOMIC ACTIVITY

I. EMPLOYMENT

(In Thousands of Persons)

A. Michigan Employment Data*

	October 1981	September 1981	CHANGE No.	CHANGE Pct.
Labor Force	4,485	4,414	71	1.6%
Number Employed	3,883	3,883	-0-	-0-
Number Unemployed	602	531	71	13.4
Unemployment Rate	13.4%	12.0%	---	1.4

B. Michigan - U.S. Unemployment Rates*

	Michigan	U.S.	Difference
October, 1981 Rate	13.4%	8.0%	5.4 Pct.Pts.

C. Indefinite Layoffs of Hourly Workers - Big Three Auto Makers

	U.S.		Michigan	
Company	No.	Pct.	No.	Pct.
Ford	41,202	20.9%	21,000	26.5%
G.M.	83,000	18.0	N.A.	N.A.
Chrysler	44,100	35.6	24,700	45.1
TOTALS:	168,302	21.4%	45,700	34.1%

II. PRICES*

A. U.S. and Michigan CPI (1967 = 100)

	U.S. CPI		Michigan CPI	
	Index Average	Percent Increase From 1 Year Ago	Index Average	Percent Increase From 1 year Ago
Jan.-Sept. 1981	269.3	10.6%	276.2	10.9%

---

*Seasonally Adjusted

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III. INDUSTRY ACTIVITY

A. U.S. Auto Sales

	October 1981	October 1980	CHANGE		MARKET SHARES	
			No.	Pct.	Oct. 1981	Oct. 1980
Domestic	491,107	663,843	(172,736)	(26.0)%	75.8%	78.5%
Imports	157,077	182,348	(25,271)	(13.9)	24.2	21.5
TOTAL:	648,184	846,191	(198,007)	(23.4)%	100.0%	100.0%

B. Auto Production

	October 1981	October 1980	CHANGE	
			No.	Pct.
Total Production	534,392	674,592	(140,200)	(20.7)%

C. Michigan Building Permits - Residential Single Units*

	SEPTEMBER			SEPT. 1981 PCT. CHANGE OVER	
	1981	1980	1979	1980	1979
Total Units	9,890	23,328	31,644	(57.6)%	(68.7)%

IV. KEY U.S. ECONOMIC DATA**

(In Billions)

	October 1981	September 1981	CHANGE	
			No.	%
A. Retail Sales	$168.54	$170.06	$(1.52)	(0.9)%
B. Durable Goods Orders	79.35	86.28	(6.93)	(8.0)%

(In Millions)

	81' 1st. Qtr.	81' 2nd. Qtr.	81' 3rd. Qtr.	3rd. Qtr.* CHANGE FROM	
				1st. Qtr.	2nd. Qtr.
C. Real GNP	$1,516	$1,510	$1,513	(0.6)%	0.6%

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*Seasonally Adjusted Annual Rate

**Seasonally Adjusted

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STATE OF MICHIGAN FISCAL DATA

I. REVENUES

A. Unrestricted (GF-GP) Revenue - FY 1978 - FY 1982 (Est.)

	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Amount (in millions)	$3,863.5	$4,314.2	$4,456.2	$4,343.2	$4,775.0
Percent Change from prior year	-- %	11.7%	3.3%	(2.5)%	9.9%
Real Change**	-- %	6.4%	(4.8)%	(10.2)%	1.4%

B. Sales, Use, Withholding Tax Receipts ('SUW)

	October 1981	October 1980	CHANGE	
			Amount	Pct.
SUW Receipts (in millions)	$372.2	$341.6	$30.6	9.0%

II. EXPENDITURES

A. Non-Obligated (GF-GP) Appropriations

	FY 1981 (Est.)*	FY 1982 (Est.)*	CHANGE		REAL CHANGE**
			$	%	
Total GF-GP (in millions)	$4,551.0	$4,704.0	$153.0	3.4%	(4.7)%

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*Figures reflect a shift back to FY 1981 $71.0 million of Medicaid spending which was shifted into FY 1982 because of an accounting change.

**Deflated by estimated Implicit Price Deflator for state and local government purchases.

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C. Welfare Caseload Trends

	September 1981	October* 1979	CHANGE	
			No.	%
Total Welfare Recipients	1,084,162	781,386	302,776	38.7
Total Recipients as percent of population	11.7%	8.5%	3.2 Pct. Pts.	---
Percent Change from October, 1979	38.7%			

*Onset of caseload increases due to recession.

III. STATE EMPLOYMENT

	June 20 1981	June 21 1980	CHANGE	
			No.	Pct.
Statewide Full-time Equivalent (FTE)	65,080.5	70,737.1	(6,656.6)	(9.4)%

IV. FISCAL SUMMARY

FY 1981-82 GF/GP Revenues:		$ 4,775.0
FY 1981-82 Original Appropriations:		4,796.6
Estimated Supplemental Appropriations	$ 307.0	
Interest on G.O. Notes	70.0	
Interest to Other Funds	20.0	
Executive Order Reductions	(254.7)	
Lapses	(30.0)	
Net Estimated Spending:		$ 4,908.9
FY 1981-82 Projected Remaining Deficit:		$ (133.9)

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Appendix C

AFDC CASELOAD

Month	Fiscal Year 1979	Fiscal Year 1980	Fiscal Year 1981
October	195,809	205,390	239,296
November	196,695	206,565	239,357
December	197,444	208,290	241,109
January	198,488	210,994	242,882
February	199,196	214,781	246,109
March	201,142	218,203	248,377
April	201,905	221,371	244,936*
May	202,157	223,658	241,191*
June	201,375	227,102	239,221*
July	201,216	230,881	237,212*
August	202,525	233,751	236,626
September	203,217	236,787	237,555

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*During these months approximately 7,200 cases were terminated as a result of state statutory change making stepparents financially responsible for their stepchildren.

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GENERAL ASSISTANCE CASELOAD

Month	Fiscal Year 1979	Fiscal Year 1980	Fiscal Year 1981
October	*	56,854	97,406
November	*	59,707	97,556
December	*	62,796	100,428
January	*	67,045	103,078
February	*	72,765	107,557
March	39,985	77,804	113,624
April	44,030	81,764	115,217
May	48,116	84,395	112,992
June	49,047	86,732	111,890
July	50,390	89,796	110,776
August	52,815	91,638	110,680
September	53,997	94,037	110,873

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*Caseload figures for these months are not comparable with subsequent months becasue they included emergency relief recipients.

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Appendix D

HEALTH BLOCK GRANTS

The Omnibus Reconciliation Act of 1981 combined programs into four health block grants, at reduced funding levels.

The Preventive Health Services Block Grant was funded at 68 percent of the FY81 funding level; Maternal and Child Health at 88 percent; and Alcohol, Drug Abuse and Mental Health at 77 percent.

Three of the four health block grants--the Preventive Health Services Block, the Alcoholism/Drug Abuse and Mental Health Block, and the Primary Health Centers Block--would be reduced an additional 12 percent under Reagan's second proposed budget. One block, the Maternal and Child Health Block Grant, would be reduced an additional 22 percent. The figures are as follows:

Block Grant	Authorized ($ million)	Reagan ($ million)	Reduction	% Below FY 1981
Preventive Health Services	$ 95.0	$ 83.6	12%	15.8%
Alcoholism/Drug Abuse and Mental Health	491.0	432.1	12	21.3
Primary Care Health Centers				
-Planning	2.5	2.2	12	---
-Allotments	302.0	Uncertain	---	---
Maternal and Child Health	373.0	291.3	22	36.4

If Michigan were to experience the full percentage reduction, the State Department of Public Health would lose an additional $4.4 million. That loss, combined with our expected $6.4 million loss from authorized funds, would equal a $10.8 million reduction in federal funds for the health block grants administered by the Department of Public Health.

Specifically, the full percentage reductions for the four health block grants would be as follows:

Block Grant	Previous Reduction	Reagan II Reduction	Total Loss
Preventive Health Services	$1.3 million	$368,000	$1.7 million
Alcoholism/Drug Abuse and Mental Health	$3.0 million	$1.2 million	$4.2 million
Primary Care Health Centers			
-Planning	$126,000	$18,000	$144,000
-Allotments	Uncertain	Uncertain	---
Maternal and Child Health	$2.0 million	$2.8 million	$4.8 million

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At this time, we cannot precisely determine what additional reductions we should expect in categorical health funding. We do know that we will lose $1.5 million, based on the allocation authorized by the Congress in the Reconciliation Act.

Finally, one very significant concern is the Federal Government's failure to implement the block grants. As of early December, the Michigan Department of Public Health has received no clear indication from the Department of Health and Human Services as to when and how "draw downs" on the federal blocks are to occur. Eight weeks after the block grants were to be operational, MDPH has completed all of its required paperwork but has received no money from the blocks. Some categorical funding continues to come to the State, but funding levels for these programs are unknown. It would appear that funding is not following Congressional authorizations; in short, the law is being ignored.

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APPENDIX E

SOCIAL SERVICES BLOCK GRANT

The Reconciliation Budget, adopted by the United States Congress, amended Title XX of the Social Security Act to establish a new "Block Grant to the States for Social Services". Included in the "Social Services Block Grant" are the Title XX (including the day care portion) and Title XX Training programs.

The Reconciliation Budget appropriated $2.4 B for the Social Services Block Grant in the 1981-82 fiscal year. This appropriation represents a 20 percent decrease from expected 1981-82 funding levels. In 1980-81, Title XX alone received a national appropriation of $2.9 B.

The consolidation of Title XX and Title XX Training into a block grant with a 20 percent funding reduction has had a significant impact on Michigan's social services programs. Michigan had anticipated receiving and incorporating into the state budget $125,494,098 for Title XX Training programs in FY 1982. In addition, we had anticipated receiving $2,464,626 for Title XX Training programs. In total, the 1981-82 Department of Social Services budget reflects an anticipated $127,958,724 for Title XX and Title XX Training, the two programs now in the Social Services Block Grant.

Michigan now expects to receive $97,958 M as allotment for the Social Services Block Grant. This amount represents a $30 M loss (approximately 23 percent) from what we had anticipated receiving for Title XX and Title XX Training programs in FY 82.

Title XX has been a major funding source for many of Michigan's social services prevention programs. Michigan programs funded with Title XX funds included: Basic Adult Services Program (services to facilitate the independent living of seniors and the handicapped); the Community Placement program for Adults (preplacement, placement, and post-placement services for adults who are involved with foster care facilities, homes for the aged, and nursing homes); the Neglect Services Program (services to prevent family breakdown leading to abuse and neglect of children and to assist families in crisis situations); and the Protective Services Program for Adults (services to prevent or remedy abuse, neglect, and exploitation of adults).

In recent years, Michigan has utilized the entire amount of Title XX Training funds allocated to the state. Training programs for five different provider training projects were funded in recent years. Providers trained under the program included adult foster care providers, child foster care parents, day care providers, inter-disciplinary child abuse and neglect workers, and individuals preparing to work in human services programs.

In mid-October, the Governor issued an Executive Order directing the state departments to reduce their 1981-82 budgets by $270 billion. The Department of Social Services (MDSS) was required to reduce its budget by $152 million. There were several factors which contributed to the need for reducing the state budget at that time: the combination of increasing caseloads, high unemployment and lagging revenues. A major contributing element was also the loss of federal revenues for state programs. The $30 M reduction in federal contribution to Michigan's social services programs was especially significant. The MDSS budget had already been drastically reduced during the prior year and there was simply no way that the state could replace lost federal funding for the Title XX programs.

Consequently, the Executive order reduced the MDSS budget by $152 M. Many of Michigan's innovative social services programs, designed to prevent institutionalization and long-term dependence on public assistance, were drastically reduced or eliminated. The following is a summary of the social services programs affected by the loss of $30 M in federal funds for fiscal year 1982.

1. *The day care program.*—Day care in Michigan has primarily been provided to recipients who are attempting to become independent of public assistance by either attending a training program or working in low-paying jobs. These AFDC families have been hit especially hard as a result of federal AFDC program changes. The federal AFDC reductions will eliminate 25 percent (approximately 2,500) of the families previously receiving day care from assistance altogether. These families were primarily at the higher end of the income scale and close to becoming self-sufficient.

As a result of the $30 M loss in Title XX, Michigan was forced to transfer day care funding from Title XX to Title IV-A. This funding source shift from Title XX to Title IV-A will further impact this most motivated group of recipients. Under Title IV-A, day care will be calculated as an "expense of employment" or as a "special need" and families will be expected to pay for their day care out of their expanded grant. This method of calculating day care payments will reduce the amount of money some families get for day care and decrease the amount of disposable income for marginal income employed recipients. Families with income between $75 and $100 per month will be affected most by this funding shift.

Michigan's Day Care Program will be reduced by $9.5 M (45 percent) as a result of the loss of federal Title XX funding. Day services had provided many families a major support for becoming independent of public assistance. They have now lost this.

2. *Community centers and runaway services.*—During the last decade, Michigan has utilized Title XX funds to develop a statewide system of runaway programs (13) and community centers (5). These programs have been successful in returning 80 percent of the youth served to a non-institutionalized, positive setting within 90 days. Funding for community centers was reduced 15 percent and funding for the runaway programs 25 percent. As a result of this reduction, 2,500 to 3,000 youth may not be served and children may end up in the juvenile justice system and institutions.

3. *Donated Funds.*—In the past, Michigan has utilized Title XX funds to operate a program known as "donated funds". Each county has received a portion of funds to implement locally determined social services programs. The funds were drastically reduced in fiscal year 1981 and reduced an additional 37 percent in fiscal year 1982.

"Donated funds" funded such community programs as big brothers and big sisters, child abuse prevention services, alcohol programs, rehabilitation services and nutrition and transportation services for the elderly. As a result of the 37 percent reduction, county boards will be forced to reduce some programs and eliminate others.

4. *Transportation to Sheltered Workshops.* Title XX funds have been utilized to purchase transportation to sheltered workshops for the mentally handicapped. This program has been reduced 52 percent for fiscal year 1982.

5. All provider training programs previously funded with Title XX Training funds have been terminated. These programs trained foster parents for children, adult foster care providers, day care providers and students training for the human services professions.

6. The loss of $30 M was only part of a $152 M reduction in the MDSS budget. It indirectly resulted in other non-Title XX reductions.

AFDC and GA grant levels were reduced 6 percent. This reduction is on top of a five percent reduction already made in fiscal year 1981.

Eligibility requirements for GA recipients were tightened.

Proposed cost-of-living increases for child and adult foster parents were eliminated.

Fees parents pay for assistance in adopting children from foreign countries were increased.

Special prevention projects in the Office of Children and Youth Services were greatly reduced.

Michigan's social services programs have been drastically reduced as a result of the $30 M loss of federal funding. It is now proposed by the Administration that an additional 20 percent be cut from the Social Services Block Grant. If this proposal is enacted, Michigan could lose an additional $20 M for a total $50 M loss in social services funds.

Michigan's human services system previously funded by Title XX is already under a great deal of stress due to federal reductions. Any additional reductions at the federal level will have a devastating effect on our programs and could result in increased institutionalization and dependence on the welfare system.

APPENDIX F

INCOME ASSISTANCE: FEDERAL PROGRAM CHANGES

Several of the Reconciliation Budget changes in the AFDC program were implemented in Michigan on October 1. The major impact will be from three policy changes: the limit on gross income of 150 percent of the state standard of need, a change in the earned-income disregard, and the elimination of the $30 and one-third disregard for all cases that have earned income for four months in a row.

Of the 31,600 cases in Michigan with earned income, 4,900 were closed November 1 either because of the gross income limit or the change in budgeting earned income. In February, another 4,700 cases will be closed because of the four-month limit on earned income. In November, an estimated 7,200 AFDC cases were closed because of federal changes in stepparent responsibility. Thus, an estimated 16,800 AFDC cases will have been closed by February 1.

Almost all working AFDC recipients will receive reduced benefits beginning in November. In addition, because of changes in the gross income test in the Food Stamp program, several thousand cases will be closed on November 1.

Although the state of Michigan will save $36.7 million in state funds through case closures and benefit reductions, it is important to remember that those funds were matched by about $36.7 million in federal funds. Furthermore, welfare dollars are high velocity dollars: they don't stay in the hands of welfare recipients very long. Every dollar lost to Michigan represents a dollar loss to Michigan businesses patronized by AFDC and Food Stamp clients, or to landlords and utility companies.

After several months of declining caseloads, AFDC and GA caseloads increased in September, and the Michigan Department of Social Services (MDSS) is projecting continuing caseload increases through the beginning of next year despite the case closures caused by federal changes. Some of that caseload growth represents displacement of persons from other federal programs. CETA cutbacks are expected to add 2,000 GA cases and 4,400 AFDC cases; the ending of extended Unemployment Compensation Benefits, which began this week, is expected to add another 1,600 GA cases and 1,600 AFD cases; and changes in TRA will add 500 more cases in each program.

Another federal intitiative can be expected to eventually add to the General Assistance program or the AFDC program. All SSDI (Social Security Disability Insurance) recipients are being screened and their cases redetermined. Some for these recipients have received benefits for a number of years and will be tested against the new HHS disability regulations for the first time. Since the program is being administered much more strictly than some years back, some cases will be closed although the recipient may have been removed from the work force for many years.

MDSS also is losing $7.5 million in anticipated savings from our very successful Child Support Enforcement program because of the federal change which requires the state to split the cost of incentive payments to counties or local jurisdictions previously paid from the federal portion of collections.

In his October 28, 1981 memo to OMB Director Stockman regarding fiscal year 1983 HHS budget cuts, HHS Secretary Schweiker presented additional AFDC changes for a total savings in 1983 of $500 million. These proposals would, among other things:

1. Require mandatory workfare programs in all states for a projected federal savings of $28 million. There could be considerable hidden costs to the state in this proposal, since the state would responsible for developing the workfare program. At the present time, Michigan has a mandatory workfare program for employable General Assistance clients. The program serves 30,000 of 70,000 GA employables. Of those actively participating, only 10,000 are in work placements at approximately 2,600 work sites. It is unlikely that enough additional work sites could be developed to accommodate AFDC clients. As a result, GA clients would be displaced, and money presently saved through sanctions placed on noncomplying GA clients would be lost.
2. Mandate participation in workfare for at least one parent of an AFDC-U household, for a projected federal savings of $53 million. Again, the state would incur administrative costs both in developing placement sites and in supervising placements and tracking clients for sanction purposes.
3. Count resources of military personnel in determining AFDC eligibility for their dependents. Projected federal savings of $15 million.

4. Mandate job search for all AFDC recipients, for $176 million in federal savings. Usually job-search savings occur when the client finds a job and is removed from the welfare rolls. With the unemployment rate in Michigan so much higher than the national average, Michigan cannot expect to realize its share of federal savings from this change.

5. Remove an eligible caretaker from the family budget under certain circumstances for $1 million in federal savings. A financial penalty would be applied to a parent who, without good cause, quit or reduced employment. Children in the assistance unit would continue to receive assistance.

APPENDIX G

FOOD STAMP PROGRAM

Program description

The purpose of the Food Stamp Program is to raise the food purchasing power of low-income households, because limited food purchasing power has been found to contribute to hunger and malnutrition. Under this program, and allotment of food stamps, based on net income and size of household, is provided to eligible households to increase their food purchasing power.

Congressional action and implications

Congress has approved several changes in the Food Stamp Program for a budget saving of $1.65 billion. The most damaging of these changes are:

1. A new gross income eligibility limit (before deductions that are allowed for calculating benefits) is set at 130 percent of the national poverty level. In Michigan, approximately 1,200–2,000 food stamp households will be impacted at a minimum. Fourteen thousand cases with earned income (who can be classified as the "working poor") will be reviewed to determine impact.

2. Cost-of-living adjustments in the standard deductions and thrifty food plan allotments are postponed. Food stamp allotments will continue to be based on price increases for the previous September, so allotments will, by the end of the benefit year, lag behind prices by 18 months instead of 12 months. This change implicitly says that the poor are not affected by inflation. It will also decrease the amount of food stamps available to the poor elderly. It is estimated that the average low-income elderly person will receive only $36 per month in food stamps. This is not sufficient to provide a nutritious diet.

3. Federal funds for outreach are eliminated. This only worsens the plight for senior citizens. Recent reports indicate that one out of every four elderly persons has an income below $4,926 and many of these citizens could benefit from food stamps. Currently, only 16,000 Michigan seniors receive food stamps out of a possible eligible group of 300,000. Failure to inform the "truly hungry" that food stamps are available is a very stingy public policy.

It should be noted that the state is still trying to comprehend the impact of the recent AFDC changes; and, until the last of those changes becomes effective, it is almost impossible to predict the impact on Michigan food stamp households.

Michigan's economy is already devastated by the depressed national economic situation. The loss of an estimated fifty million food stamp dollars to the food retail establishment will only worsen the plight of the state.

APPENDIX H

LOW INCOME ENERGY ASSISTANCE

The Low Income Energy Assistance Program (LIEAP) is one of the few programs that are targeted to the northern states.

The Reconciliation Budget created a LIEAP Block Grant, easing regulations imposed on the states during past years, and maintaining a level of funding close to last year's. Under the Reconciliation Budget authorization, Michigan would receive approximately $100 M to operate its energy assistance program.

However, the Reagan Administration has not allocated program funds at the authorized level. It has instead chosen to allocate funds as if the original Reagan Administration proposal for a 25 percent reduction in the program had been adopted. As a result, Michigan may receive only $77 M in LIEAP funds.

The loss of about $23 M to Michigan would have a serious impact on the state.

The $77 M would be distributed in this fashion: $32.7 M for the home heating tax credit, $20.4 M for emergency needs, $9.0 M for GA special needs, $5.5 M for a Department of Labor weatherization program, and $5.0 M for administration. The remaining $4.4 M would be allocated to supplemental payments. Last year, $30 M went into supplemental payments alone.

The reduction in federal funds will cause an average yearly loss of approximately $50 per household. Many senior citizens would be affected, since over 60 percent of the 300,000 heating credit recipients last year were over 65.

APPENDIX I

FEDERAL BUDGET: IMPACT ON MICHIGAN'S MEDICAID PROGRAM

Present projections for the impact of the federal budget on funding for the Michigan Medicaid program for fiscal year 1982 are that the program will lose in the neighborhood of $16 million, which represents a penalty of approximately 2 percent of federal financial participation.

This loss stems from a 1 percent penalty to the federal financial participation because Michigan does not have a hospital rate-setting program and a 1 percent loss because it now appears unlikely that Michigan will have an unemployment rate which is equal to or in exces of 150 percent of the national unemployment rate.

While the Reconciliation Act allows states to recover dollars against the federal penalties if the state's Medicaid spending remains below a 9 percent growth factor, it appears unlikely that Michigan will regain any funds through that provision. The 9 percent growth factor is applied to the estimate for fiscal year 1981 spending which was submitted to the Health Care Finance Administration in February, 1981. While some states typically highball this estimate, Michigan's estimate is based on funds actually appropriated. The analysis of the February estimate which has been made thus far indicates that the estimate was probably understated. Thus, unlike other states which submitted high estimates, Michigan will be penalized in its efforts to recover funds through this provision because of the submission of a low estimate.

Other changes contained in the Reconciliation Act may increase Michigan's losses beyond the $16 million. Though these provisions have not yet been costed out, some of the changes made to the Medicare benefits will result in increased Medicaid expenditures. For example, the amounts for copayments, coinsurance and Part B premiums for Medicare have all been increased. Medicaid directly reimburses these amounts for those Medicaid recipients who are Medicare eligible.

The state has not yet made any changes to the Medicaid program to reflect the decrease in federal funding. The Social Services Supplemental Appropriation request does include $7 million for loss of funds to the Medicaid program. This lower figure was used because at the time that the supplemental need was projected, it was still anticipated that Michigan would recover additional federal funds from the unemployment relief clause.

Finally, it should be noted that the Reconciliation Act provided greater flexibility to states for developing cost containment iniatives. While some states may be able to derive financial benefit from this additional flexibility, it appears that Michigan has already implemented many of the initiatives which would be allowed under this language and therefore will not receive any appreciable fiscal relief through these provisions.

One of the proposals tendered by the Administration and considered by the Congress was to cap federal contributions to the Medicaid program. The Reagan Administration had recommended that a 5 percent cap be included for fiscal year 1982.

The impact of a cap on the Medicaid program would be devastating for Michigan. It was estimated that the fiscal year cap of 5 percent would have resulted in a loss of approximately $60 million for Michigan. Because health care costs have traditionally risen faster than other components of the economy, any cap which did not at least keep pace with inflation would place a tremendous burden on states.

Last year, health care costs rose 15.2 percent. The share of GNP devoted to health care rose from 8.9 percent in 1979 to 9.4 percent in 1980. In the face of these historical growth rates in the health care sector, there are few actions which a state can take to moderate these trends through state actions. If federal funds for Medicaid were capped at a significantly lower level than the growth of health care costs, Michigan would have no choice but to restrict eligibility and/or eliminate optional benefits.

APPENDIX J

CHILD CARE FOOD PROGRAM

The United States Department of Agriculture administers a Child Care Food Program for children in child care centers, family day care homes, and Head Start Programs. In Michigan, the Department of Education administers the program and currently has contracts with approximately 400 child care centers and 5,000 family day care homes. The program provides reimbursement to programs which serve meals and snacks to income-eligible children. In the past, the program has also granted funds to programs for the purchase of food preparation equipment.

In fiscal year 1981, the Child Care Food Program and School Food Program were funded at $4.5 B nationwide. The Reconciliation Budget reduced the program by $1.5 B. The following reductions have already been implemented in the Child Care Food Program:

1. Meal reimbursement rates have been reduced.
2. The number of reimbursed meals has been reduced from three meals and two snacks per day to two meals and one snack per day.
3. The food service equipment purchase program has been eliminated.
4. Administrative costs for family day care programs have been reduced by 10 percent.
5. Eligibility for free lunches has been lowered to 130 percent of the poverty level (previously at 125 percent plus standard deduction) with no standard deduction.
6. Eligibility for the reduced-price lunches has been lowered to 185 percent of the poverty level (previously at 195 percent plus standard deduction) with no standard deduction.
7. Income verification is now required as a condition for free and reduced price meal eligibility. Income guidelines have been removed from application forms and Social Security numbers of all adult members of the child's household are now required.

To carry out the mandated $1.5 million reduction, additional spending cuts are now being proposed by the United States Department of Agriculture. The additional proposed reductions include:

1. Limiting reimbursement for meals served to children under the age of 12. All handicapped children as well as migrant children under age 15 would be exempted.
2. Prohibiting participation in the Special Milk Program if a child care center or day care home is participating in the child care food program.
3. Adjusting meal reimbursement rates only once a year rather than twice a year.
4. Eliminating the tiering method of reimbursement so that meal reimbursements are based on the income eligibility of individual children.

To date, we have not assessed the impact of the reductions on the state. There is concern that the effect of the cuts will be magnified by corresponding reduction in food stamps, AFDC eligibility, and extended unemployment benefits.

APPENDIX K

URBAN DEVELOPMENT ACTION GRANTS; COMMUNITY DEVELOPMENT BLOCK GRANTS; HOUSING

Urban development action grants (UDAG)

The UDAG program has been continued for this fiscal year, within the Community Development budget. The reduced UDAG allocation will result in an estimated probable loss to Michigan of $13.5 million.

Federal Budget Director David Stockman's recent recommendation that the entire UDAG program be phased out after 1983 is alarming.

Community development block grants (CDBG)

Michigan received $153 million in Community Development Block Grants in FY81. This included funds for entitlement cities and urban counties, and for the small-cities program administered by HUD. The CDBG program has been changed; the small-cities program can now be administered by the state. Michigan is opting to administer the program.

HUD authorities in the Detroit office cannot supply information on specific dollar losses for Michigan for FY82. It appears that there will be at least a 10-percent overall cut, and the President wants an additional 12 percent. Speculation is that Michigan's loss will range from 10 to 22 percent. This translates into a dollar loss of $15–$33 million.

Budget Director Stockman is proposing to eliminate or phase out all new spending after 1983 for CDBG (as well as UDAG).

Housing

Michigan has still not received official word from HUD regarding housing subsidies for FY 1982. The Reagan budget has reduced the number of new housing units by 50 percent.

Budget Director Stockman has proposed that federal subsidies for low-income housing construction be discontinued as soon as possible. He is seeking a 75-percent reduction in the 1982 housing program, and even deeper cuts for 1983. This would drastically slash the number of additional low-income families that could obtain housing assistance. Under Stockman's proposal, money to help finance the construction or rehabilitation of low-income housing would be cut off entirely during the current fiscal year, which began October 1. The only housing assistance left would be rent subsidies for existing housing (a program that does not enjoy wide use in Michigan). This proposal comes at a time when home-building is in its biggest slump since World War II.

The President's Commission on Housing, appointed in June, has issued an October 20, 1981 interim report. The Commission assumes the major housing problem today is not housing quality, but rather, inadequate income ("poor families simply cannot afford decent housing"); the Commission is recommending that the primary federal program for low-income-housing assistance be a "consumer-oriented" housing-assistance grant. This would involve rent vouchers for very-low-income households to enable them to live in decent housing. This might make it easier to make housing cuts in the future—provided there is any money remaining in housing allocations at that time.

Section 8 subsidized housing

Michigan citizens living in subsidized housing units, or receiving rent supplements, will not lose their right to subsidized housing, although it will cost them more to live there. In other words, the State will retain the number of subsidized multi-family units it has at present, but tenants will be paying more of their income for housing than they did previously.

Tenants wil have to pay 30 percent of adjusted income, rather than 25 percent of income. This increase became effective October 1, 1981 for *new* tenants. Increases for new tenants will be phased in over a five-year period. Rents will be phased in so that no tenant's rent rises more than 10 percent per year. Tenant incomes will be recertified annually.

There will be no separate rent standards for different categories (i.e., very low income, handicapped, etc.).

The Michigan State Housing Development Authority (MSHDA) officials will not know the Michigan allocations for FY82 until the first of next year. The share of FY82 subsidized housing units going to Michigan will not be determined until HUD completes its allocation process (which did not happen until May of this year, although MSHDA officials expect to have the figures finalized earlier this coming year).

APPENDIX L

K-12 EDUCATION

The original budget proposed by the President would have meant a loss to K-12 education in Michigan of about $80 M in comparison with the Carter 1981-82 budget—or about a $73.5 M loss over 1980-81 federal aid—from the $304.4 M received in 1980-81 to a proposed $230.9 M. This would have meant an actual loss of about $40.50 for each full-time-equated pupil in the public schools of Michigan.

The budget approved by Congress in early August would have reduced this loss over 1980-81 actual aid to about $43 M, or $23.69 per pupil.

The new budget proposed by President Reagan would mean a loss of about $91.5 M—from the $304.4 M received in 1980-81 down to $212.9 M. This would be a loss of about $50.41 per pupil.

In general, if the latest budget proposal were to be adopted verbatim, the hardest-hit school districts would be the larger urban districts that have extensive Title I programs to assist low-income "educationally disadvantaged" children. The next hardest-hit group would be handicapped children receiving special education. Vocational education would also be severely hit.

Congress, in revising the first budget request, gave the President slightly more than he asked for by way of cutbacks in the school lunch program, but kept funding for Title I programs and Special Education for the Handicapped relatively close to 1980-81 levels and made lesser cuts in vocational education than the President had proposed. Since the overall cut for K-12 education was considerably less than the President had requested, and yet the total budget met his criteria, it must be assumed that cuts greater than he requested were made elsewhere.

It should not be assumed that these proposed cuts will have little or no effect on the so-called "average" pupil—who is neither handicapped nor educationally deprived and is not enrolled in a vocational program. Since President Reagan has proposed no slackening of rigid federal requirements for providing Special Education for the Handicapped, and since Title I and vocational education programs probably cannot realistically be reduced in proportion to the federal reductions, general fund budgets will beyond doubt be directly affected—resulting in reduced programs for the average pupil or new demands for increased operating millages.

In addition, in a related field, federal cuts in Vocational Rehabilitation have already necessitated a cutback of 51 positions in this branch of our State Department of Education.

Already, with the conbined effect of the federal cuts and the local depression, we have a great many indications of the crisis confronting our schools.

1. The Alpena district closed for several weeks—the first closing to occur for fiscal reasons since the Great Depression of the 1930s.
2. The Taylor and Pontiac districts may well close unless new millage requests to the local taxpayers are approved.
3. We have been forced to reduce standards for Special Education for the handicapped—permissible age range, permissible teacher load, etc.
4. We have been forced to terminate any state funding of school social workers, psychologists and aides not specifically required by law in Special Education programs—resulting in a great many lay-offs in local districts.
5. The short-term indebtedness of our school districts increased by about $200 M in the last year—from roughly $600 M to $800 M—and will probably go over $1 B in the next year, with interest rates on tax-anticipation- and state-aid-anticipation notes running as high as 15 percent and 16 percent, when buyers can be found.
6. Some 29 various K-12 positions at our State Department of Education have been eliminated, in addition to the 51 Voc.-Rehab. positions mentioned above.
7. School lunch prices have risen from 15 cents to 25 cents on the average, and many districts are currently seeking fiscal-emergency waivers to terminate their required lunch programs.

CROSSROADS, CATHEDRAL CHURCH OF ST. PAUL,
Detroit, Mich.

DEAR CHAIRMAN ROSTENKOWSKI AND MEMBERS OF THE WAYS AND MEANS COMMITTEE: As one of the many Detroiters who attended the December 8th hearing about the effect of "Reaganomics", I too want to thank you for coming to our city. And as a representative of one social service agency that is a part of Detroit's "safety net", I want to let you know about the conditions we see and tell you something about this agency's capabilities and lack thereof.

First, you should know that we were busy before any cuts took place; that is because even with the best of systems and services, some people fall through the cracks: the man who needs to purchase a birth certificate in order to prove his identity as he goes to apply for Social Services; the woman whose Social Security check was stolen; the veteran whose records have been lost in the computer; the alcoholic who is not yet ready to join a rehab program. We have assisted some 15,500 people in the past ten years, people in emergency situations.

All along we have received many referrals from caring workers in public agencies who saw people whose needs were not met by approved guidelines. Now, many of these programs have been cut and the economy is floundering: the Neighborhood Legal Services is taking no new cases but a woman wants representation to gain custody of her children, kidnapped by her husband; TRA benefits have stopped, and a family can't exist on the earnings of a college student working part-time; The Ford-Flat Rock foundry has closed and people are scared; owning a house, they cannot feasibly relocate, and frequently one auto workers' relatives are also auto workers and are in no way able to help out; the Department of Social Services no longer pays the cost of child care, and a woman about to finish an accounting program is afraid she'll have to drop out of school and remain on ADC.

Just because programs and services stop, the needs do not.

This agency practices the two policies that President Reagan has advocated—voluntarism and voluntereeism. We receive no federal, state, or local government funds; our money comes entirely from individuals and churches. We have a paid staff of three and a volunteer staff of sixty.

However, practicing volunterism and volunteerism does not enable us to deal capably with all the difficulties we see and hear about.

What can we say to the men and women who say, "I'm able to work. Where can I get a job?

What can we say to the patient recovering from a nervous breakdown who says, "I'm worried the government will stop my S.S.I. I read so many things in the paper. I'm afraid I'll have to go back to the hospital."

Or what can we say to the many who dropped out of school and now say, "Where can I get some job training? Nothing seems available."

What can we say to these honest, legitimate and heartwrenching questions?

We are on the front lines working with people. Yet, you, ultimately, are in the best position to be of help. There are almost unlimited opportunities for you to act to reorder priorities to achieve what Mr. Brodhead called yesterday "a humane social policy and a responsible fiscal policy".

Again, thank you for coming to Detroit to assess the current difficulties.

Sincerely,

MARTHA D. MCROBERTS, *Assistant Director.*

STATEMENT OF MEL RAVITZ, DETROIT-WAYNE COUNTY COMMUNITY MENTAL HEALTH BOARD

This is my response to the Ways and Means Subcommittee on the effects of the recent federal budget cuts.

First, let me note that the federal budget cuts have had a chilling impact nationally on all health and human service programs; they have created uncertainty and confusion, not primarily because they are reductions but because they have been indiscriminate reductions and they have been so massive and immediate. What we are witnessing is a counter-revolution that has within a single year eliminated, severely dismantled, or otherwise intimidated almost every social and human service program enacted over the past fifty years. The message from Washington is unmistakable; the health, education, welfare and yes, even the lives of many Americans are expendible in pursuit of the Administration's economic and military program.

In mental health we are caught in the reduction process both directly and indirectly. Although, because of the funding basis that was used to calculate the federal allocation to Michigan and because of the declining fiscal expectation of existing federally funded comprehensive centers, we will likely have all of the anticipated funding for community mental health centers this year, we have no idea where the block grant concept will take us thereafter. It is also ironical that at a time of intensified need for community mental health services, the federal resources made available were cut by 25 percent and converted to block grants. In Michigan we should fare satisfactorily this year because the Department of Mental Health Director has indicated that the state won't take out any administrative costs but will allow all the federal dollars to flow to previously funded Community Mental Health Centers. At the local level we appreciate the state's determination to use the money for service, but wiser federal planning would have built in a legitimate state administrative cost in addition to the service allocation. Also, we don't know whether next year there will be an administrative cost exacted by the state or whether the block grants will be further reduced.

Moreover, next year Michigan has the option of diverting up to 15 percent of the federal money from one of the programs within the block grant to another. Were mental health funds to be channeled elsewhere, great human suffering would result. Further, because so many of our clients are chronically disabled, they are likely to be adversely affected by cuts in other programs as well: social security, SSI, Medicaid, etc.

The plain truth is that community mental health boards across the country, especially in the hard hit industrial states like Michigan and in cities like Detroit, are experiencing a mounting need for mental health services. We have the phenomenon of huge lay-offs from the auto industry thereby throwing thousands of persons into the public mental health care system. Formerly, if these workers had any problems, they had the capability of using their health care insurance in the private care system. Now, that insurance has dried up and the public care system is all that exists to provide relief and possible recovery. The federal job programs are gutted, as financial help to the cities, counties and states is sharply cut back, as the service capability of the various forms of public assistance is dramatically curtailed, more and more people are pushed into frustration, alienation, and self-directed or other directed hostility and violence. The public mental health system and the police are the agencies being inundated with casualties. We can neither make straw into gold ala Rumplestilskin nor can we produce more mental health service with steadily shrinking resources.

The result of the federal budget cutbacks ripples across the country and through all echelons of government. More people in need of all kinds of help are being turned away or are being referred to other agencies in a vain attempt to find someone who can help, or are being more hastily seen or participate in a diluted treatment program necessitated by dwindling dollars. Unfortunately, the casualties of the federal and consequent state budget cuts aren't visible in a single dramatic episode like a Hiroshima. No, these casualties show up as individual suicides, more frequent instances of spouse and child abuse, street assaults, homocides, and requests for both inpatient and outpatient psychiatric services. These casualties are virtually invisible because they are so scattered in time and place. But they are casualties that can be attributed directly to our failure to fund sufficiently our community mental health programs and the other Agencies of the human service network we painstakingly built.

Another potentially devastating impact on mental health of federal budget cuts is the reduced ability of counties to fund their 10% share of matching money as required under Michigan's mental health code. To the extent that federal revenue sharing to counties will be reduced, they will be further squeezed to provide the matching funds necessary to participate with the state in administering and managing the local service delivery system. Given the availability of the block grant money to the states, the state will require counties to provide their 10 percent matching funds in order to receive it. While the state would doubtless make the funds available even without the local match, it might also insist on maintaining state control over programs it funds rather than continue to move toward enhanced local board control which in Michigan is being called 'Shared Management'. Such an occurrence would destroy community mental health care.

Finally, let me observe that under the new block grant funding approach, all service providers in our delivery system should be equally concerned about the reduced federal funds. Now more than ever the funds to run our programs are controlled from a single source: the state. If there are insufficient funds for the comprehensive community mental health centers, the state could cut non-federal-center funding to provide more for the comprehensive community mental health centers. Reciprocally, if there is not enough money for the non-federal-center mental health programs, the state could decide to tap the federal block grant funds and thus deny them to the "protected" centers.

If nothing else is understood, we should know that we are all we have in this period of austerity. We must take particular care not to allow ourselves to be divided and set one against the other for scarce resources. Our clients would be the heavy losers of that no-win approach.

If we are to survive as service agencies to meet the needs of our clients we must stand together, advocate for more resources together, learn to share our skills and our ideas, maximize the service we can squeeze from the money we have by consolidation, administrate ingenuity and more joint planning. The federal budget cuts are cruel and unreasonable, but they are real and we must accommodate to them even as we work to overturn them.

The message from Washington is unmistakable: Cut human services. The message from the local level is unmistakable: We can't provide quality services without adequate funds.

Detroit Housing Department,
Detroit, Mich., December 14, 1981.

Mr. Dan Rostenkowski,
Chairman, Committee on Ways and Means,
Washington, D.C.

Dear Mr. Rostenkowski: Every large housing authority in the United States operates daily on the brink of financial disaster. The Detroit Housing Department is no different. And as a result, no longer can we promise to provide a decent, safe and sanitary housing to our tenants. We no longer can afford to.

Past fiscal review and future projections outline a steady progression toward insolvency. Within the period of 1964 through 1979, our reserve fund dwindled from $1,885,810 (which was 90 percent of the allowable reserve) to an $11 million deficit. Since the passage of the Brooke Amendments, a severe cutback in our operating subsidy and the implementation of the Performance Funding System, there has not been adequate federal subsidy for the Detroit Housing Department (DHD) to remain solvent. No difference would be noted if we collected all rent income from every housing unit under management.

In 1973, HUD Secretary James T. Lynn stated, "We realize we must improve the operation of existing public housing projects. As you know, the problems have piled up until there is a crisis atmosphere throughout the program. Pruitt-Igoe is only the tip of the Iceberg. . . . The American dream cannot be complete for any of us unless it is within the reach of all of us. A decent home in a suitable living environment is an essential part of that dream."

Carla Hills, who succeeded HUD Secretary Lynn, stated in reference to the Performance Funding System, "The Performance Funding System has proven to be one of 'punishment' with no elements of concern for need, or elements of reward." Her promise to review the PFS one month after the program had been operational a year never happened. During the Carter Administration, the timetable for review of PFS was "after eighteen months" which never happened.

We have been informed that we will receive only 85 percent of our 1982-83 approved federal subsidy. This alone will create a $2,500,000 deficit. Attempting to deal with our past deficit, the City of Detroit loaned the Detroit Housing Department $10,000,000 to be repaid out of future income in compliance with Sec. 6 of the State Municipal Act. But once again, the present federal funding will guarantee a new deficit, growing to unmanageable levels.

In an attempt to live within an inadequate budget, we have reduced staff to a minimum level and instituted a hiring freeze. Our ability to prepare and return units to the rent rolls has been severely curtailed. Work orders mount daily but we are principally relegated to "crisis maintenance."

Being a city department and not an autonomous authority, wages and benefits are primarily governed by unions negotiating for the city employees in exchangeable and comparable classifications. Consequently, a reduction in the rendering of services to the tenants, cannot be isolated and therefore reduced. The options for the future are limited. The financial status of the Detroit Housing Department necessitates planning further reductions in staff, greater curtailing of services and the closing down of some projects as unit preparation comes to a standstill.

As of today, there is no immediate or viable solution to our mounting indebtedness. Economic conditions indicate an even greater demand for Public Housing in the future. The Detroit Housing Department has the units to satisfy this growing need, but not the financial resources to offer them. We are fast becoming not the managers of "pass through" housing for families facing economic hard times, but slum landlords for a growing number of Detroit residents.

Sincerely,

CHARLIE J. WILLIAMS, *Director.*

STATEMENT OF ARTHUR JEFFERSON, GENERAL SUPERINTENDENT, DETROIT PUBLIC SCHOOLS

For the past 16 years, children in Detroit schools, like those in many other communities, have participated in compensatory education programs supported by the Elementary Secondary Education Act and other legislation. These programs are good examples of how the federal government and local education agencies can work together to develop systematic and effective approaches for delivering services to large numbers of disadvantaged children. This was accomplished without undue interference by the federal government which many feared would result from this cooperative effort.

Schools worked with community groups, other public and private agencies, professional organizations, the State Department of Education, offices of education of four different administrations and others to improve services to children. We have established and maintained programs that:

(1) Have realistic goals;
(2) Provide meaningful and worthwhile services;
(3) Are cost effective;
(4) Continue adequate safeguards to insure that services are properly targeted;
(5) Supplement regular school programs; and
(6) Have been highly successful in carrying out the intentions of Congress.

The impact of these programs in Detroit is well demonstrated by the dramatic improvement in student achievement. Prior to 1970, in the region within our school district having the highest incidence of poverty, more than 50 percent of students were significantly below average in reading; by 1981 this had been reduced to 20 percent.

Now, with the reduction in federal support many of these programs must be eliminated or severely cut back. We will be forced to deny compensatory education services to more than 10,000 eligible students and reduce services to those students we continue to serve.

Elimination of CETA funded public service employment is another example of how the operation of schools has been adversely affected by reduced federal support. Our security intern program for adults was started shortly after the passage of the Emergency Employment Act of 1971, and was expanded under Title II and VI of the Comprehensive Employment and Training Act. This program provided entry level employment to more than 250 adult residents of the City of Detroit and trained them for more advanced positions in the field of security.

Prior to this program, the school system, because of limited funds, was able to maintain a security force of only 40 persons. This force provided services to 300 schools and other buildings housing more than 240,000 student and staff. Only in our high schools, where the need was the greatest, were we able to provide any type of meaningful security service. The task of providing security in our middle and elementary schools was left to the school administrative and teaching staff. This arrangement was carried out at great expense to the educational program.

In spite of the excellent cooperation and support we received from the police department, whose resources were also severely limited, the security and safety in and around our schools left much to be desired.

Within two years following the implementation of our CETA funded security intern program, our security force was expanded to more than 300 trained persons. The coverage in the high schools was increased, and middle schools had at least one security person assigned on a full-time basis. Additional staff was available for deployment in emergency situations.

Our enlarged security force was able to respond more effectively to illegal behavior such as assault, extortion, possession of weapons and drug abuse. In addition, it assisted in monitoring our recently implemented student code of conduct by helping to control prohibitive behavior such as insubordination, verbal abuse, smoking, truancy and disruptive student demonstrations. Implementation of this code of conduct was ordered by the Federal District Court as part of a school desegregation order.

With the elimination of this public service employment program, 77 schools housing almost 100,000 students were left without the services of a full-time security staff member.

A few of the other cutbacks that we have been forced to make include:

(1) Health screening, immunization, referral, and follow-up services for more than 122,000 students;

(2) Basic education programs for more than 1,000 adults; and

(3) Work/study opportunities for more than 6,000 youths.

At a time when schools should be expanding their capacity to deal with special problems of children, they must stop providing many services that have proven to be very beneficial over the past several years.

It is totally irresponsible to imply that more local efforts should be forthcoming to fill the void created in our local school program by the Budget Reconciliation Act of 1981. For the past several months the level of unemployment in this area has been the highest in the United States. Yet the citizens of Detroit have supported their schools by responding favorably to five of the last six requests for school tax levies. Last month when the unemployment rate in the City was 15 percent, the voters by a margin of almost 3 to 2 approved two school tax requests.

Education and other human service programs must bear a fair share of the reductions in federal spending. It is unreasonable to expect that these programs should suffer a disproportionately larger share of the reductions, and totally unacceptable that the federal government should be moving toward a complete withdrawal of support for education.

STATEMENT OF ELAINE DONNELLY, LIVONIA, MICH.

[From WJR Radio "Point of View," December 8, 1981.]

Everyone knows that the economy has been in trouble for some time. During the Carter years, government spending increased by more than 50 percent, taxes went up 75 percent in only 3 years, and inflation soared to more than 18 percent. In addition, proposed government regulations, such as mandatory air bags in cars, forced the prices of consumer goods upward, while the mind-boggling trillion dollar national debt pushed interest rates up to record levels. The dynamics of this situation have led to a recession, and many people are suffering from the economic slowdown. But instead of addressing the problem honestly, Democrats in Congress, led by House Speaker Tip O'Neill, have resorted to granstanding rhetoric and a lot of hot air.

For example, Speaker O'Neill recently told the press that the President will have to admit that his policies have failed, before the Democrats will offer any alternatives. No matter that the Democrats have had control of the budget for over a decade, while the first stage of the President's plans went into effect only 68 days ago. Of course, everyone knows that the Democrats' "alternatives" would only be a continuation of the same tax-tax, spend-spend policies that weakened our economy in the first place. To his credit, the President has refused to grovel before Tip O'Neill. Instead he has declared war.

The first battle occurred just before Thanksgiving, when the Congress insisted on passing a budget-busting spending bill, in spite of the President's warning of a veto. Instead of backing down, the President closed down non-essential government services, including one-third of the Treasury Department, half of Transportation, and 90 percent of the Commerce Department. A large part of the White House staff was dismissed, and even the Washington Monument and the Statue of Liberty were closed down for a day. The Democrats sputtered with rage, but the world did not come to an end.

A truce has been called until the December 15 deadline for a new 1982 budget. In the meantime, Tip O'Neill and the Democratic leadership are engaging in diversionary tactics and psychological warfare. The House Ways and Means Committee, chaired and controlled by Democratic Congressman Dan Rostenkowski of Illinois, has taken to the road with a series of regional hearings on the narrow subject of the impact of Reagan's budget cuts. One of the hearings is set for today, December 8, at Detroit's City Hall. At this hearing and others like it, those who are used to spending taxpayers' money will be well represented, but the taxpayers will not be represented at all.

The Wall Street Journal recently charged that the O'Neill Democrats are fervently hoping that the economic program will fail so that they can capitalize at the polls. If that strategy succeeds, the President may lose his ongoing battle to turn the country around, and our economy may never recover. That's my point of view, I'm Elaine Donnelly.

STATEMENT OF LEROY NICHOLS, EXECUTIVE DIRECTOR, GENESEE COUNTY COMMUNITY ACTION AGENCY, GENESEE COUNTY, MICH.

Hon. Dan Rostenkowski, chairperson, thank you for the opportunity to submit written testimony on the Impact of the Reagan Administration's Budget Cuts and Policies.

First, let me say the results of the President's budget cuts are devastating and yet the cuts have not finished taking its toll. Even as this statement is written, we hear of more and more suffering all over this country. It is the poor, the elderly, the handicapped and the unemployed who are the mainstream sufferers.

Because of the Reagan Administration's policies, listed below are some affects and impact on the people:

More than nine million people are out of work: The unemployment rate is 8.5 percent and rising, teenage unemployment is more than 20 percent; black teenage unemployment is more than 40 percent. The nation's unemploymnet rate represents the highest since 1939.

Automobile sales reached a 22 year low, causing unemployment in the automobile industry to reach a new high.

Minorities called the cuts biased; feel the administration is picking on them.

The infant mortality rate is on the increase due to social policies affecting the poor: Cuts in welfare, food stamps, and medical assistance.

Layoffs resulting from cuts in the CETA Program and local government are causing havoc in the efforts of the local government to provide essential services to residents.

The inflation rate of the nation's health care cost is subject to increase dramatically if the Reagan Administration eliminates the health systems agencies.

Home building for 1981 was the worst year since World War II. Low and middle income families are priced out of the market, the one dream of every American family, the of home ownership, is a hopeless dream.

Violence has increased in the home, the school and the streets, attributed directly and indircetly to stress caused by unemployment and other economic factors.

The Agriculture Department's proposed cuts in the Summer Food Program will affect nearly one million participants. Last summer, locally, we served nearly 400,000 meals to approximately 6,000 participants. This year, many areas probably will not have a food program because community action agencies are no longer allowed to participate as grantee.

Charitable organizations are experiencing a surge in requests for assistance due to, largely, the Reagan cuts and unemployment.

At a time when unemployment is on the rise (Michigan has one of the highest rates) the State of Michigan has laid off 1,000 employees of the Michigan Employment Security Commission (MESC) and projects to layoff 875 more in the near future because of the Reagan Administration's budget cuts.

The Civil Rights of Minority Americans are being jeopardized and violated as a result of the racist policies of the Reagan Administration.

These affects are just the tip of the iceberg, a prophesy of what is yet to come. What poor people need to come are jobs, lower interest and motrgage rates, food, energy and a government that cares for its poor and a government that attempts to meet the needs of the poor rather than distort those needs.

Thank you.

DETROIT, MICH., *December 8, 1981.*

The Ways and Means Committee:

The budget cut has really been a big problem for myself and others. I am raising four of my grandchildren. The cut has really turned our lives around.

We are just bearly making it from one month to the next month, doing without things that children are suppose to have in clothing them for school properly.

The house note and utilities just seem to be a nightmare trying to keep them going, with a income of $546.00 a month.

MS. MARVA HAMILTON.

STATEMENT OF THE JUNIOR LEAGUE OF DETROIT, INC., CHILD ADVOCACY COMMITTEE

The Junior League of Detroit is an organization committed to voluntarism and had been involved with programs dealing with the well-being and concerns of children since 1921. The current Child Advocacy Committee of the Junior League of Detroit began its research on child abuse and neglect in metropolitan Detroit in 1977. This testimony reflects our views as an independent volunteer organization with nearly 1,000 members. We are an organization that has no vested interest, rather, we are familiar with many of the current problems and existing agencies, which allows us to have an objective view when speaking for the needs of children.

The Junior League of Detroit recognizes the reality of federal budget cuts; however, we believe new priorities should be established which will coordinate the work of existing agencies with an emphasis on education and prevention. Research proves that child abuse and neglect is a learned behavior passed from generation to generation. A well-established fact is that prevention and early intervention are more effective in breaking the cycle of child abuse and neglect than adult aftercare. Federal dollars must be allocated for creative preventive programs in the areas of children and youth.

Health and human service programs have been indiscriminately cut causing confusion. These cuts have been massive and immediate without study as to which programs were most effective. An example of cuts which have affected preventive and education programs is the decreased money allocated for training of day care providers/workers. The quality of the day care situation for a young child is crucial in his overall development. Contrary to President Reagan's statement on October 5, 1981, not every well-meaning mother and grandmother is prepared or able to provide quality care in a group situation. This budget cut has hurt agencies which have been able to make an impact through the training of day care personnel. The most recent Michigan statistics show a large increase in child abuse and neglect in family day care homes in the last year. This is alarming! We must commit our nation's resources to providing environments where children can grow and thrive.

The current economic climate in Michigan is placing an ever growing number of families under stress to provide the basic necessities of food, clothing and shelter for their children. At the very same time, the support services for families which our community has worked long and hard to establish are being destroyed by severe budget cuts which have been initiated at the fedral level. We are distressed to see the disappearance of free services which have traditionally been available and have acted as support systems in the community.

Quality assessment of existing programs and agencies should be implemented to reduce duplication of services to promote sound financial management and to coordinate the most effective programs for the care of our children. Therefore, the Junior League of Detroit urges that our nations's energies and funds be directed toward prevention of child abuse and neglect and the coordination of existing services to insure that our children and youth have the opportunity to develop into mentally healthy adults.

[April 1981]

CHILD ADVOCACY POSITION PAPER

POSITION STATEMENT

The Junior League of Detroit is committed to assuring that children have the opportunities and services essential for their optimal physical, intellectual, emotional, mental and social growth, and will advocate to see that such opportunities and services are provided.

The Child Advocacy and Public Affairs Committees of the Junior League of Detroit recommend that the above position statement be supported by the Junior League of Detroit, Inc. at the Thursday, May 28th, 1981 General Membership Meeting.

BACKGROUND STATEMENT

Facts

Child abuse is a problem that cuts across all socio-economic boundaries. Its scope has just begun to unfold in recent years.

How much child abuse and neglect is there in the United States? No one knows for sure. One estimate widely accepted is at least 1,000,000 cases per year. Of these, about 2,000 children die. 2,000 per year—that's six a day—or one child every four hours. Some estimates hold that for every case reported, four go unreported.[1]

These numbers tell only part of the tragic story. Some children may be too young, too scared, or too confused to be able to tell anyone about it. Abuse or neglect can make it impossible for a child to develop into a healthy human being.

There are three types of child abuse: physical, sexual, and emotional. Physical abuse is inflicting bodily injury on a child. Sexual abuse is using a child in or exposing him to sexual activities with or without his consent. Emotional abuse is demanding that the child do more than he is able to do, severely criticizing him or humiliating him for not living up to overwhelming expectations.

In addition to child abuse, as defined above, there are two types of child neglect. Physical neglect is the failure to provide enough food, clothing, shelter, or medical care. Emotional neglect is the failure to give a child the love and affection he needs.

Background

The Junior League of Detroit has been involved with the well being of children and activities concerning them since 1921. (For detailed information regarding these involvements, please refer to appendix 1).

Over the years, the need for facilities to help children became intensified. During the 1940's and 50's, only two or three states exceeded Michigan in the rate of population growth. Economic changes caused unemployment. Cities had to cope with delinquency and rising crime. As a result, during this period, seventeen child guidance clinics were opened throughout Michigan for the purpose of providing early treatment of emotionally disturbed children. In 1946, Pioneer House was one of the Junior League of Detroit's first projects dealing with emotionally disturbed children.

Over the next thirty years, the Junior League of Detroit continued its involvement with children through programs dealing with the many needs and concerns of children. In 1976, child advocacy became an official program of the Association of Junior Leagues. The Child Advocacy Committee of the Junior League of Detroit was also formed during that year. This program was solidly grounded on the cumulative experience of the Junior Leagues over almost 80 years of serving children.

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[1] Edwina Kocurek, "Domestic Violence", Bright Scrawl, Spring issue, 1981.

Background and statistics

The Child Advocacy Committee of the Junior League of Detroit began its research into the dimension of the child abuse and neglect problem in metropolitan Detroit in 1977. Many sources have been utilized for this research with some astounding statistics being reported.

For instance, Childrens Hospital reported abuse cases increased from 663 in 1977 to 815 in 1978. The Detroit Police reported the following:

1977—433 cases of neglect, 431 cases of abuse.

1978—636 cases of neglect, 581 cases of abuse.

Wayne County Department of Social Services reported incidences of child abuse and neglect increased from 6,161 in 1977 to 8,207 in 1978.

More recent studies from the State of Michigan, show a state total for child abuse and neglect at 28,308. This figure covered the period from October 1979, through September 1980. (For specific information, refer to the following two pages).

Purpose

We must be committed to our children, so they may grow up to be loving, caring, responsible adults. As child advocates, our purpose is to learn, through investigating and researching, and then to share our knowledge for the betterment of all children. We must continue to address children's issues and use our talents to effect permanent change. We can do this by continually educating ourselves, by making awareness programs available, and offering choices and sources of help, in order to make a significant IMPACT.

In our conclusion, the United Nations Declaration of the Rights of the Child, adopted unanimously by the members of the General Assembly, proclaims that all children have the following rights:

"The right to affection, love and understanding.
The right to adequate nutrition and medical care.
The right to free education.
The right to full opportunity for play and recreation.
The right to a name and nationality.
The right to special care if handicapped.
The right to be among the first to receive relief in times of disaster.
The right to be a useful member of society and to develop individual abilities.
The right to be brought up in a spirit of peace and universal brotherhood.
The right to enjoy these rights, regardless of race, color, sex, religion, national or social origin." [2]

APPENDIX 1—JUNIOR LEAGUE INVOLVEMENTS DEALING WITH CHILDREN

1921—Detroit League for the Handicapped was established and one of their four goals was the education of crippled children.

1930—The Training Cottage for the Blind, designed to help blind children of poor families, was established.

1930's—Junior League players began and presented plays at hospitals and clubs, sometimes performing for children as often as four times a month.

1946—Children Concert series at Music Hall was for the cultural growth of children.

1946—Pioneer House was established to study the use of group therapy with youngsters who were emotionally disturbed to the point that they had to be removed from their home.

1953—Scoop Ryan (a radio program on WJR) was a cub reporter who furnished American history stories of interest to children ages 8-14.

1953—The League equipped and furnished books in the children's room of the Grosse Pointe Central Library.

1953—The Junior League Puppeteers—Performed various plays to thousands of children, hundreds of which were underprivileged, crippled or deaf.

1964—The Poison Control division of Childrens Hospital opened for treatment, prevention through education and research in the field of poison control.

1964—The Northeastern Wayne County Child Guidance Clinic was formed. Now known as Northeast Guidance Center, its purpose was and is to help those with emotional disturbances—ages preschool through adult.

1968—FLEC (Family Life Education Council) was formed to assist young people in the Grosse Pointe/Harper Woods area in dealing with substance abuse.

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[2] "U.N. Declaration of the Rights of the Child:, Junior League Review, Annual Mag., September, 1979.

1969—Childrens Hospital Playroom was furnished and staffed for the betterment of a child's hospital stay.

1969—Children's Television Workshop known as "Sesame Street" brought programs to stimulate the intellectual and cultural growth of all young children.

1970—Drug Abuse Workshops were set up for the training of teachers and parents concerning young people.

1970—PAL (Detroit Police Athletic League) program was formed as a preventive program. It is a summer recreational and opportunities program for Detroit youth.

1972—Drug Spots—a series of six television drug abuse spots to be aired at prime time, where children between the ages of 8 and 12 years were actively expressing their joy of life.

1972—Detroit Youth Board Campership Committee and Franklin-Wright Settlements Camp to help provide needy children with the experience of going to camp which contributes personal and social growth, independence, etc.

1976—Child Advocacy becomes an official program of the Junior League.

1977—Mayors Task Force on C.A.N. Junior League of Detroit members are sitting on these boards: Red Cross sub committee for C.A.N.; Y.M.C.A. advisory board for battered women; Parents Anonymous—advisory board.

1978—Child Protection Week—during this week, 16 different presentations and discussions on Child Protection were given and six presentations of the play "Dessie" were staged. "Dessie" was a play about child abuse.

1979—Governors Conference—The Junior Leagues of Michigan co-sponsored the Governors Conference on C.A.N. with the Michigan Department of Social Services.

1981—"Touch"—The Child Advocacy Committee sponsored this presentation dealing with sexual abuse in a positive way.

REPORT DATE 10/07/80
REPORT PERIOD 10/79 THRU 09/80

HEALTH AND WELFARE DATA CENTER
CHILDREN'S PROTECTIVE SERVICES MANAGEMENT INFORMATION
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State of Mich.

	CAUCASIAN			NEGRO			AMERICAN INDIAN			ORIENTAL POLYNESIAN			UNKNOWN			MEXICAN PUERTO RICAN OTHER SPANISH SURNAMED			TOTAL		
AGE	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL
< 1	824	729	1553	390	311	701	4	7	11	4	4	8	28	23	51	16	22	38	1266	1096	2362
1	684	622	1306	268	253	521	8	2	10	1	1	2	8	10	18	17	20	37	986	908	1894
2	676	593	1269	257	233	490	8	7	15	1	1	2	8	8	16	15	11	26	965	853	1818
3	577	552	1129	210	248	458	7	4	11	1	3	4	12	11	23	17	22	39	824	840	1664
4	558	520	1078	214	242	456	3	2	5	2	1	3	10	8	18	19	17	36	806	790	1596
5	580	508	1088	241	210	451	5	7	12	2	1	3	6	10	16	11	20	31	845	756	1601
6	528	512	1040	262	269	531	3	4	7	1	2	3	9	10	19	15	12	27	818	809	1627
7	546	501	1047	259	240	499	5	2	7	3	0	3	3	8	11	20	11	31	836	762	1598
8	546	469	1015	244	237	481	4	7	11	2	0	2	12	8	20	15	13	28	823	734	1557
9	572	483	1053	228	199	427	1	6	7	0	1	1	15	8	23	12	16	28	828	713	1541
10	520	500	1020	210	180	390	7	6	13	2	1	3	10	12	22	12	11	23	761	710	1471
11	506	505	1011	185	165	350	5	7	12	3	2	5	10	10	20	15	22	37	724	711	1435
12	539	561	1100	172	180	352	5	2	7	4	3	7	10	13	23	6	11	17	736	770	1506
13	464	652	1116	175	170	345	6	8	14	3	4	7	11	12	23	18	20	38	677	866	1543
14	485	763	1248	116	205	321	3	10	13	1	3	4	10	25	35	11	14	25	626	1020	1646
15	435	802	1237	103	197	300	1	2	3	0	3	3	16	20	36	4	18	22	559	1042	1601
16	406	629	1035	65	155	220	5	2	7	1	1	2	7	24	31	5	12	17	489	823	1312
17	170	266	436	38	50	88	0	1	1	0	0	0	1	7	8	2	0	2	211	324	535
>17	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1
STATE TOTAL	9616	10168	19784	3637	3744	7381	80	86	166	31	31	62	186	227	413	230	272	502	13780	14528	28308

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	MALE				FEMALE				TOTAL			
AGE	ABUSE	NEGLECT	ABUSE/ NEGLECT	TOTAL	ABUSE	NEGLECT	ABUSE/ NEGLECT	TOTAL	ABUSE	NEGLECT	ABUSE/ NEGLECT	TOTAL
<1	157	1092	17	1266	124	959	13	1096	281	2051	30	2362
1	143	832	11	986	134	762	12	908	277	1594	23	1894
2	170	768	27	965	152	690	11	853	322	1458	38	1818
3	174	634	16	824	168	656	16	840	342	1290	32	1664
4	158	633	15	806	145	635	10	790	303	1268	25	1596
5	172	659	14	845	167	576	13	756	339	1235	27	1601
6	163	638	17	818	175	621	13	809	338	1259	30	1627
7	155	663	18	836	145	605	12	762	300	1268	30	1598
8	162	646	15	823	180	538	16	734	342	1184	31	1557
9	167	647	14	828	159	540	14	713	326	1187	28	1541
10	144	607	10	761	184	516	10	710	328	1123	20	1471
11	145	559	20	724	210	477	24	711	355	1036	44	1435
12	185	540	11	736	223	520	27	770	408	1060	38	1506
13	163	499	15	677	311	528	27	866	474	1027	42	1543
14	132	486	8	626	343	641	36	1020	475	1127	44	1646
15	131	416	12	559	404	611	27	1042	535	1027	39	1601
16	101	374	14	489	309	491	23	823	410	865	37	1312
17	36	172	3	211	109	205	10	324	145	377	13	535
>17	0	0	0	0	1	0	0	1	1	0	0	1
STATE TOTAL	2658	10865	257	13780	3643	10571	314	14528	6301	21436	571	28308

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ECORSE, MICH., *December 7, 1981.*

To the Ways and Means Committee of Congress:

With all of the new bills and changes, it is hard for people like myself and others to survive out here. I've worked hard most of my life, from age fifteen to age forty-two. I am now forty-four years old. Since 1970 I've been on my own raising my three sons without the help of their father. I am now on medical leave from work. I am a hospital cook. I've been employed in hospital work since 1968. I came out on medical in 1979 Oct. 26th, which has been two years, my sick benefits ran out, so I had no other choice but to turn to A.D.C. for help. I had no problem with them because, looking back over my past they knew that if I had worked when my children were babies that I am not a lazy person. I would prefer working and taking care of my family. My health has prevented this. I am going back to school for a Dietetic Technology degree which will take two years. In the meantime, I still have a family to take care of. With all the cuts they've placed upon my check in the last year, I really don't see how myself or others can survive. Food, clothing, utilities, and rent is still going up. The check I receive is going down. I worked all those years, paid money out of my pocket for people like myself, now I am catching (hell) trying to survive, only until I am able to return to work. I am not a selfish person. I am writing this letter thinking of those who will never be able to work again, how will they survive? Don't anyone care? We have to start with love right here at home before we can spread it out to other parts of the world. Love begins at home, then it can be extended. I know we have some people who are lazy and don't want to work, then you also have those like myself, who haven't any other choice. At least I finish my schooling and change my classification. Thank you for reading this letter and please help.

A concerned person and registered voter.

MARY A. KING.

ROMULUS, MICH.

To Who This May Concern:

Please be advised that I feel the cuts toward human services are unfair for the single parent. The money offered for child care services helps me go to school and therefore get a good job so I can get off of ADC. I sure wish you would consider helping those in need because that is your job.

Thank you very much,

Sincerely,

MARCIA KOCH.

STATEMENT OF HOWARD CHRISTENSEN, DIRECTOR, OFFICE OF GOVERNMENT AFFAIRS, LUTHERAN SOCIAL SERVICES OF MICHIGAN

My name is Howard Christensen, Director of the Office of Governmental Affairs, Lutheran Social Services of Michigan (LSSM). The agency serves more than 6,500 people daily in the Lower Peninsula and in facilities in Indiana and Kentucky. I also have been asked to testify on behalf of four Lutheran Social Service agencies in Northwest Ohio.

LSSM is an agency of the Lutheran Church in America and the American Lutheran Church. While we trace our beginnings to the late 1890s, we were formally established in 1934.

Our 1982 operating budget is $12 million. LSSM has 18 facilities in nine cities in the Lower Peninsula. In addition, the agency manages two nursing facilities, one in Indiana and one in Kentucky.

LSSM serves more than 900 older adults daily through nursing and residential care facilities; another 300 through a Senior Center with Food and Friendship, protective services, home chores and maintenance. LSSM is in the process of opening a geriatric day care center in the Senior Center.

LSSM also:

Places almost 200 children annually in foster care, including Indo-Chinese refugee children;

Offers intensive foster care for the severely emotionally impaired child;

Places almost 100 children (mostly special needs children) annually in adoptive homes;

Offers life enrichment to individuals and families to teach them skills to prevent problems in work, family and school life;

Has resettled more than 3,000 Indo-Chinese refugees in Michigan since 1975 through sponsorship of local congregations, individuals and organizations;

Operates two community centers which offer education and counseling to thousands of young people;

Manages five group homes for the mentally retarded and often, physically handicapped—a total of 60 living and working in Detroit, Mt. Clemens and Midland.

Our stated mission is to serve the needs of people as those needs arise, particularly those people who often have little or no money and, many times, no family.

Examples include:

The two community centers are in low income, high unemployment areas in Saginaw;

Of LSSM's three nursing homes in Michigan, 80.4 percent of the population in one is on Medicaid; 43 percent in another and 63 percent in a third.

In an apartment building for the elderly and handicapped (a 202 Project) only three of the 154 residents pay market value rent. The remainder qualify for Section 8 funds.

The average income of a resident is $4,200, well below poverty level. When LSSM announced construction of the building, 1,000 applications poured in with 600 still on the waiting list.

Soon, LSSM will manage another 202 Project near Grand Rapids. This 32 unit housing complex also is covered by Section 8.

Let me be specific about how budget cuts affect our agency's divisions and the agency itself.

FUNDS

The amount of money owed us primarily by the State of Michigan has increased significantly. Our Accounts Receivable now run approximately $300,000, reflecting the shortage of funds the state is experiencing. Although this money eventually will be paid us, it does create a difficult cash problem.

Voluntary contributions, primarily from the church are down significantly. Contributions will be 40 percent below budget. The federal budget cuts will affect seriously nonprofits of all kinds and the voluntary sector will not be able to pick up funds lost through government cutbacks.

IMPACT ON AGENCY DIVISIONS

Let me further illustrate the impact of the budget cuts on our various divisions.

The Division of Developmentally Disabled is affected in four major areas:

1. Supplementary Social Insurance (SSI): No cost-of-living increase has passed through since, 1979. Our homes, which depend totally or largely on SSI, are hurting and reaching the point of not being able to function much longer should future increases not be passed through to residents.
2. Department of Mental Health (DMH) Programs: LSSM's Michigan State Housing Development Authority (MSHDA) homes depend on the base rate provided by the DMH ($10.21 per day). Should this be significantly reduced or eliminated, the continued financial solvency of the facilities would be very questionable.
3. Continuation budgets: For all intents and purposes, the Alternative Intermediate Service (AIS) homes have been on continuation budgets since July, 1980. It is only a matter of time before ends no longer meet and/or providers can't comply with Federal Intermediate Care Facilities/Mental Retardation (ICF/MR) guidelines.
4. New Development of Homes: This probably is where the cuts could have the most impact. Implications relate to State monies (DMH program service fee, SSI, etc.) and Federal monies (future development monies; i.e., Section 8 monies for new low-income housing developments).

Division of Facilities for the Aging also is affected by unchanged SSI rates and Medicaid cuts. The SSI rate has stayed the same for almost three years despite increased costs to residential facilities of 9 to 12 percent annually. This eventually means a lowering of services which is abhorrent to the agency.

Medicaid poses different and more critical issues. We already supplement Medicaid residents on the average of $10 per resident per day. Further, a number of pharmaceutical aids for residents have been deleted and this will have an impact on medical services available to nursing home patients.

LSSM's Division of Community Services has it own set of difficulties. The Calvary Senior Center (Detroit) director notes:

Calvary's Home Services Department (funded by the Detroit Area Agency on Aging) has been funded at the same level ($44,000) since 1979. Staff working hours have been reduced and vacancies are not filled. Calvary will not offer snow removal or lawn care service this year, forcing some 100 clients to look elsewhere for help. The Homemaker Service has a 23 person waiting list. Since these people are physically and/or mentally limited, remaining in their homes will be even more difficult.

Calvary's nutrition programs (funded by the Older Americans Act through the Detroit Health Department) also shows signs of strain. The Food and Friendship meal allocation has been reduced over the past 18 months from an average 140 meals daily to 115. As many as 30 people are turned away daily. As other area meal sites face the same problem, there is no place to send people to for food.

At a recent meeting with the director of the Meals at Home program, the Calvary director was told that vacancies due to attrition can no longer be filled. Waiting periods for this valuable program at LSSM's five sites already average six to eight months with this period expected to double.

A major problem with cuts in nutrition programs is the reduction in food stamps and the proposed freeze in Social Security and SSI benefits. A case from Calvary's protective services department (funded by United Foundation) illustrates the problem:

Mrs. E., 77, called Calvary last March, stating her inability to pay overdue gas bills of $323. We obtained the senior citizen rate for her and referred her to an agency which negotiated a one-time energy credit of $175. However, this credit is no longer available. Mrs. E. has owned her home for 40 years, her neighborhood is declining, but she's afraid to move. What will this winter bring?

In LSSM's other community centers, one director reports he sees an increase in alcohol and drug abuse as well as an increase in child abuse. Mothers coming to the center are scared and frustrated. There's a 100-percent increase in applications for food and toys.

People are remaining at the center for longer periods of time and the daily average of people coming to the area soup kitchen has tripled. The soup kitchen is supported by a number of churches in the Saginaw area.

The Comprehensive Employment Training Act (CETA) staff was cut off in September, 1981 in our three centers. The Saginaw CETA workers have not been able to find employment since they left LSSM's employ although they have filled out 20 to 30 applications; have had nine to 12 interviews and visit the employment office twice weekly. Several former CETA workers volunteer their help at the center where they once worked.

Another area hit by budget cuts is the LSSM's Refugee Services.

A major problem within the Federal Refugee program is the low priority given it by the Administration. A clear example of this is the still-unfilled Office of Director of Refugee Resettlement (ORR) within Health and Human Services. This leaves the program without top level leadership, without proper advocacy and much confusion.

Cash and medical benefits have been administered by the states to refugees with full federal reimbursement through the AFDC and GA (General Assistance) regulations. While these AFDC and GA systems continue as vehicles for providing assistance, the federal cuts have removed or severely limited those federal program provisions which gave work incentives to refugees.

Another example is in "earned income disregards". The Refugee Act allowed the $30 and ⅓ disregard on family earnings for 36 months. Federal cuts reduce this to four months. This is a major negative step in the area of work incentives for refugees.

Further, it has a negative effect on sponsor development within the private sector to whom the federal government continues to look for resettlement assistance.

LSSM's Division of Clinical Services report that administrative reimbursement from the state remains at the 1980 rate, causing the division to run at a deficit.

Funds paid foster parents remain at the 1980 rate, making it more difficult to find homes that will take a foster child.

Working single parents who are classified as marginally poor are facing severe problems in supporting their children. Further, it becomes more difficult to return children to their own homes because, in many cases, they are without work and have no source of income.

To complicate the matter, Michigan has ruled that 25% of the reimbursement rate to foster families must come from the counties. Financial cuts means service cuts. It becomes more difficult to get medical help since cuts in Medicaid have reduced the number of physicians who will serve Medicaid patients. Though state regulations call for Foster Parent training, no funds are available to carry out this valuable program.

Information from the four Ohio Lutheran agencies is attached in support of this testimony.

SUMMATION

LSSM, as part of the religious community in this state, is deeply concerned at the emerging federal fiscal philosophy which can only hurt those in society who are the most vulnerable.

Although limited in resources, this agency, along with other nonprofits, will draw on its own power to serve those who have the fewest choices.

At the same time, it needs to be clearly understood that the government at all levels must provide systems and funding that are both compassionate and just.

Only this kind of partnership will provide for the kind of society that both church and state want so badly today.

Should this type of partnership not occur, the voluntary sector will be the first to limit the increasing number of its services to those who can pay.

Furthermore, the weakening of the voluntary sector in its traditional roles will create a situation where the two main sources meeting needs will be the public and private sectors. This could be disastrous for it would result in one sector caring for the poor and one other, those who can afford services. Many people would be lost in the cracks.

Thank you for the opportunity to testify.

STATEMENT OF CHARLES LUHN, DIRECTOR OF AGING SERVICES, LUTHERAN SOCIAL SERVICES OF NORTHWESTERN OHIO (LIMA BRANCH)

There are 4 Northwest Ohio agencies which serve 24 counties (22 in Ohio and 2 in Michigan) with branches in Lima and Defiance County.

The Lutheran Orphans and Old Folks Homes in Toledo each have 185 beds with 50 additional beds ready to be opened in the nursing unit. There is a waiting list of 400 in that department.

The Retirement Living Program has 2 units ready to be open with 50 beds. Each has a waiting list of 500. The Retirement Living Program has been most successful.

There is another branch of Lutheran Homes at Lima that are under construction.

Gerald Labuhn the Executive Director of LOOF is very concerned about Act. 202 Section 8 (rent subsidies). If Section 8 is eliminated as proposed there will be a strong adverse affect on their programs.

Ohio is among the states who receive a low reimbursement to their support programs.

Block Grant Programs would affect agencies on Medicaid funding. There is talk of 25 percent reduction for dependents.

Luther Home of Mercy in Williston serves a broad geographic area in addition to NW Ohio and southern Michigan. Currently we have 113 mentally retarded and/or physically disabled residents. There are 150 on the waiting list. (We are ready to launch Phase A of a 10 year expansion plan)

We are heavily dependent on Medicaid reimbursement. Obviously a reduction in the reimbursements will have a strong adverse affect.

The Filling Home of Mercy, Napelon, Ohio serves Henry County residents primarily with 53 mentally retarded residents and a sizeable waiting list. (The emphasis here is on the younger severally retarded)

With the exception of LSSNO, these NW Ohio agencies are presently only minimally involved in CETA programs.

For your info: the present per-diem rate at Luther Home of Mercy is $43.50 per day. The per-diem at LOOF is $36. The per-diem at Filling is $52. LOOF reports there is about $7 difference between reinbursements from Medicaid and actual cost per day. LOOF underwrites the $7 difference.

One of the major foci of Title XX of the Social Security Act is "Services for the Aging."

This inclusive "Homemaker Services" whose purpose is to provide light-housecleaning, laundry, and shopping service for those whose physical condition warrants help as a means of being able to maintain independent living. The alternative in most instances is nursing care which is not desirable for at least two reasons;

1. Homemaker care is about one-tenth as expensive as living in a nursing facility.
2. Many older people are still able to maintain themselves in their own residences with a bit of help and therefore should not have to go prematurely to nursing homes.

Over and over again, the word from elderly people is that they do not want to live in a nursing home. Oftentimes a person's own home becomes the last vestige of pride left—they lose jobs, health, mobility, friends, and even children who ignore or desert their parents. It is important then to make every effort to permit the Aging to maintain residency in the familiar "home" environment.

Homemaker Services is one of the ingredients to make this possible.

Experience has shown that there has never been enough Title XX monies available to satisfy the Homemaker Services' needs, because the demand for services always exceeds the resource available. Now, to add insult to injury, the Reagan administration has cut into the Title XX budget so that even less funds will be available.

Lutheran Social Services of Northwestern Ohio (Lima Branch) has had a Title XX contract with Allen County Welfare Dept. for the past five-and-one-half years to provide Homemaker Services. Over 500 people have benefitted from this program. Beginning in 1976-77 with a $53,000 contract, our homemaker program served 40 persons.

In order to meet the growing demand for help in succeeding years, CETA-sponsored workers were used as Homemakers to augment the Title XX staff to good advantage—at our zenith of service in 1880, 232 clients were being served. As long as CETA personnel were available, we have been pretty well able to keep up with requests. As of last December, nine CETA-related workers were part of the staff, but in the course of the next six months, CETA positions were all terminated. This meant that a staff of only four persons remained to serve 170 clients whereas its capacity was for serving a maximum of 80 clients. Further, one Title XX Homemaker had to be laid-off in July because of a cutback in Title XX funding from $90,000 to $74,000 for fiscal 1981-82.

If another 12 percent cut is made, as has been proposed by the President, still another worker would have to be laid off and the program almost totally destroyed.

Churches continue to be mainsprings in helping the underprivileged, especially in such agencies as Lutheran Social Services. LSS financial resources are limited so that it cannot financially support every needed program. Thus, the LSS branch office in Lima was established to be largely locally supported, that is, local Lutheran churches supplying matching funds to go with Title XX funding.

A similar Homemaker program has been operating in our Defiance office with two part-time Homemakers because of meagre Title XX monies available to Defiance County.

LSS-NWO has been a good manager of federal monies allotted for Homemaker Services and does the government a favor in acting as provider for this much-needed service. Such leadership should be encouraged for its role in helping to minister to those who cannot help themselves. The federal government should continue to see, and use, the Church as ally in in carrying out social services programs.

Many people require Homemaker services at least once a week, but our staff shortages have made it necessary currently for most of our clients to receive service only once-every-other-week. Earlier this year 30 clients were asked to accept service every-fourth-week. Obviously, such limited assistance does not meet their needs.

During 1981 we have not been able to add one client to our schedule although we have had over 50 referrals for service.

Homemaker Services for the Aging is a wise investment even though it is costly. This service must not be the sacrificial lamb to appease a federal budget. If we are a humanitarian society, we dare not force the ever-growing Aging segment of our land to fend for themselves when physically they cannot do so.

Chore Service (home maintenance such as mowing lawn, shoveling snow, wall and rug cleaning, painting, etc.) complements Homemaker Services as a necessary function and is Title XX eligible, but there has never been sufficient Title XX funds in our county to permit Chore Service. Thus, the Aging homeowner often sees his or her property deteriorate in appearance and value.

In surveying the Aging scene, it is apparent that a goodly number of Aging persons have neither the physical strength, financial means, nor family support to meet their full needs for independent living. But with a little boost from the outside, such as is offered in Homemaker, Home Health Aide, and Chore Services, they can continue to maintain themselves in their own residences. This is a goal which ought be given a high priority even in this time of economy-squeeze.

STATE OF MICHIGAN,
DEPARTMENT OF EDUCATION,
MICHIGAN REHABILITATION SERVICES,
Lansing, Mich., December 2, 1981.

Mr. DAN RUSSO,
Oversight Subcommittee of the Ways and Means Committee,
Washington, D.C.

DEAR MR. RUSSO: In response to your recent telephone call, I believe the attached copy of an article published by Michigan Rehabilitation Services contains the essence of the impacts of federal budget cuts upon clients and staff.

Sincerely,

PETER P. GRISWOLD, *State Director.*

Enclosure.

MICHIGAN REHABILITATION SERVICES IS HIT HARD BY FEDERAL, STATE BUDGET CUTS

AS MANY AS 20,000 HANDICAPPERS MAY NOT RECEIVE REHAB SERVICES

While all state vocational rehabilitation agencies this year are facing reductions in federal funds, Michigan Rehabilitation Services is undergoing a financial setback unprecedented in the history of the program.

The first impact of budget cuts at both the state and federal levels had been the layoff of 47 MRS employees. Superintendent of Public Instruction Phillip E. Runkel said the layoffs will be effective December 5 and that further staff reductions are anticipated about the first of the year.

MRS State Director Pete Griswold says the FY 1982 budget cuts could also mean a reduction of nearly $4 million in case service funds, money that is spent to assist clients into jobs.

With less money and fewer staff, Griswold said, as many as 15,000 to 20,000 fewer handicappers will receive rehabilitation services during fiscal year 1982 than did a year ago.

SSDI/SSI SUPPORT WITHDRAWN

All state agencies are being affected by the recent Social Security Administration decision to withdraw the $169 million that supported the rehabilitation program for Social Security Disability Insurance and Supplemental Security Income recipients. VR agencies can now earn only a very small proportion of these funds through reimbursement once a client has worked continuously over a nine-month period.

VR agencies are seriously affected as well by the continuation of last year's federal appropriation of $854 million. It appears at this writing that the authorization level of $899 million for FY 1982 will not be achieved. This means state agencies will have no additional funds this year to compensate for increased costs caused by continuing inflation.

MRS AFFECTED AT HOME

In Michigan, an additional variable is taking its toll on the resources available to operate the VR program.

The recent $270 million reduction in the state's FY 1982 budget has resulted in budget cuts within the Department of Education. MRS has been asked to contribute $540,000 as its share.

What are the ramifications of these budget reductions on the agency's ability to serve clients?

IMPACT ON SERVICES

Director of Field Services Judith Bufkin explains that MRS can expect at best a case service budget this fiscal year of $8.8 million. "Our initial demand for case service dollars was slightly more than $12 million to initiate rehabilitation plans for 13,990 new clients," she said. "We now anticipate a potential 42 percent reduction in plans initiated."

Bufkin said the agency's four area administrators are working to secure cooperative agreements that MRS can use to minimize the impact of a potential additional loss of case service monies and staff.

She emphasized that service priority will continue to be given to clients currently in programs. The estimated "carryover" budget to serve these clients is $3.7 million; the remaining $5.1 million is available for services to new clients.

"While we should continue to serve new clients and make commitments to do so, counselors will be responsible for exercising sound judgement and assessing the effectiveness of the service needed for clients to achieve their placement objectives," she said.

"We are refining the managed intake system and financial needs test with anticipated implementation in January," she added. "We are also developing for the media in the event referral/intake activity may need to be curtailed at either the district or state level."

STATEMENT OF BAILUS WALKER, JR., PH. D., M.P.H., DIRECTOR OF PUBLIC HEALTH, STATE OF MICHIGAN

We wish to summarize the impact of Federal budget reductions on public health services. As well as highlighting our Michigan problems, we will note national implications on behalf of the Association of State and Territorial Health Officials.

In the last 100 years, Michigan and the nation have made remarkable progress against communicable diseases, but during that same period, fatalities from chronic diseases—heart, cancer, strokes, diabetes, and others—climbed precipitously. Some of this disease is the handmaiden of age. But we also know that we can do much to reduce disabilities, to lengthen productive years, and to prevent premature deaths from many of these chronic and debilitating causes. Of course, we cannot afford to turn our backs on communicable diseases. As examples, we have not eradicated measles, even though we have the arsenal to do so. Despite progress, we see many forms of infection continuing at high levels—VD, hepatitis, influenza, encephalitis, and Legionnaires' disease—to mention a few. In Jackson, Michigan, recently, we even had a few cases of typhoid fever.

Across our state and through the nation as well, state and local health departments in many instances are barely managing to sustain the battle against infectious diseases, let alone applying what we know to bring about the abatement of disabilities and early deaths from chronic conditions. We know, for example, that part of the chronic disease mortality curve is caused by needless exposure to chemicals. We have overwhelmed our capacity to absorb, sequester, decompose, or dilute such chemicals to insignificance. We must come to grips with these hazards. Doing this buys us into a highly imprecise world of incomplete data and conflicting values. It is costly, but long overdue.

The cuts being made at the Federal level are further delaying the work needed to provide public health protection to our communities. In Michigan, the amount in Federal health block grants for 1981-82 is $13 million less than the amount shown as Federal revenue source for the categoricals rolled into the block grants, in our state appropriation.[1] (Table I attached.) Our state legislature reappropriates all Federal money—a pattern common in many other states.

While the state is making some effort to provide a supplemental of $5 million to make-up the worst of this loss, at the same time, due to the heavy impact of the recession in Michigan, we have had to absorb a state reduction of $5 million—so the two offset each other. In addition, our 1981-82 state and local appropriations for public health have already been cut below the muscle and into the bone as a result of our state economic condition. Consider what the reduction in block grants means to Michigan. We are forced to reduce each categorical rolled into the block grants by at least 25 percent. This means:

Cutting hypertension programs just when we are able to show the impact of these programs in helping many people control their high blood pressure which so often leads to premature strokes and disability.

Cutting services to help highly vulnerable babies and mothers—closing clinics—denying pre- and post-natal care. You can be assured that the end result will be at the least more dependent mothers and babies, and at the most, newborns who may be handicapped and dependent all their lives.

Cutting rat control programs so that we reverse the progress made to overcome this shame of our cities—children playing among rat burrows and being bitten by rats.

Cutting emergency medical services programs, weakening the organized network aimed to assure quality, timely emergency care to many citizens when they need it most, in life-threatening situations.

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[1] Preventive Health and Health Services; Maternal and Child Health; Alcohol, Drug Abuse, and Mental Health, excluding mental health funds which are handled by a separate agency in Michigan.

In addition, reductions in Federal support in the remaining categorical funding significantly reduces our capacity in many other sensitive programs. Family planning is one example. In this program, reductions will deny family planning assistance to many Michigan women, leading to unwanted babies with all of the dire social and economic impacts which have been defined so well for so many years.

We are already amidst making these reductions. We urge that everything possible be done to avoid any further cutbacks. The state does not have reserves to make up these losses. Moreover, even though some savings may be realized, administrative flexibility and streamlining will not cover cuts of this magnitude.

We wish to share an illustration of cost/benefit in public health. (See Table II attached.) Conservatively, we calculate that for every dollar we spend:

On measles immunization—we avoid an estimated $9 in medical costs;
On fluoridation—we avoid an estimated $19 in dental bills;
On hypertension—we save an estimated $5 in health care costs;
On the metabolic condition, *PKU*—we save $24; and
On hypothyroidism—we save $3.

As a further illustration, we are attaching to our testimony a statement recently made to the Congress on behalf of the Association of State and Territorial Health Officials. This statement converts budget jargon into some homely descriptions of people, families, and communities whose well-being is jeopardized when public health funding is reduced. We also are attaching a summary page from the National Public Health Program Reporting System which demonstrates the high yield nationally from investments in public health protection. We are quite concerned that delays in continuing Federal funding for this modest information system may impair our ability to continue to try to be responsive and accountable to the Congress for the Federal monies provided for state and local health departments of our country.

To conclude, an ounce of prevention is still worth a pound of cure. It is literally penny-wise and pound-foolish to cut public health if you wish to economize. Especially in hard times, public health is one of the most frugal investments you can make.

TABLE I.—FEDERAL BLOCK GRANT FUNDS

	Provisional allocation, October 1981	Amounts in MDPH 1981–82 appropriation	Difference
1. MCH	$9,931,700	$12,873,400	$2,941,700
2. Preventive [1]	3,773,200	10,528,400	6,755,200
3. Alcohol, Drug [2]	10,009,500	13,563,100	3,553,600
Total	23,714,400	36,964,900	13,250,500

[1] Excludes $120,700 for rape counseling.
[2] In this table, the mental health portion of this funding, which will be programed by the Department of Mental Health, has been excluded.

TABLE II.—COSTS AND BENEFITS OF SELECTED PUBLIC HEALTH PROGRAMS

Problem	Estimated unit cost	Estimated cost avoided per unit	Cost/benefit ratio
Measles	$1.67	$15.10	1:9
Fluoridation	2.75	53.25	1:19
Hypertension	56.14	298.79	1:5
Phenylketonuria	1.54	36.26	1:24
Hypothyroidism	1.52	5.27	1:3

MICHIGAN DEPARTMENT OF PUBLIC HEALTH
3500 N. LOGAN, P. O. BOX 30035
LANSING, MI 48909

June 15, 1981

TO: SUBCOMMITTEE ON LABOR, HEALTH, AND HUMAN SERVICES, U.S. CONGRESS

FROM: Ted Ervin, Acting Director
Michigan Department of Public Health
TED Ervin

SUBJECT: PRUDENCE AND PUBLIC HEALTH

Attached is a copy of my testimony on behalf of the Association of State and Territorial Health Officials. We appreciate this opportunity to share with you our concerns in relation to the funding of public health services in the United States.

PRUDENCE AND PUBLIC HEALTH

Ted Ervin, Acting Director
Michigan Department of Public Health

(Testimony prepared for the House Appropriations Committee, U.S. Congress, June 15, 1981, on behalf of the Association of State and Territorial Health Officials.)

Thanks for this opportunity. I have some stories to tell you this afternoon. They are true stories. They come from over a quarter of a century in Michigan's State Health Department. They also reflect the views of my associates in the 55 other states and territories. Based upon many years of work with our state legislature and with you, I am not insensitive to the extremely complex job you must face this year. But that sensitivity does not relieve us of the need for some plain talk and common sense. I believe, and my colleagues in county, city, and state health departments believe, that it is prudent to invest in public health. We believe. Let me tell you why.

The Case of the Sleeping Child

In southwest Michigan this afternoon, a 14-year old lies in bed in a hospital. He does not recognize his family. He is incapable of response. Doctors say his brain has been destroyed. He is a victim of Eastern Equine Encephalitis, a disease carried by mosquitoes. This child is a failure of public health. We did not move fast enough to save him. The cost to him and his family is beyond words. The cost to taxpayers through Medicaid is $450,000 this year. We face more such losses to the extent that prevention funding is reduced. The sequel to this story is that, thanks to an alert Governor and legislature and dedicated staff, we were able to move some money around fast enough to hire DC-3s for a massive spray program, which wiped out the mosquitoes and held the damage to one child and several horses.

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You have heard how we made spectacular advances against infectious diseases. Our death rate has gone down by over 60 percent since the turn of the century. Your lifetime and mine, on the average, is 20 years longer than it would have been in 1900. Each year, local and state health departments serve over 30 million people directly in communicable disease control programs, and the entire population indirectly. However, in order to sustain a reasonably adequate national program to protect children from acute infectious diseases, you have been persuaded to provide special, high level funding for immunization. Rightly so. Were states and localities negligent? In some cases, perhaps, yes. But across the country, the evidence does not support laxity. Rather, it shows lack of any previous, sustained national money commitment to help us assure equity in the ready availability and accessibility of vaccines. This is probably the easiest thing to fund. It is harder to help Michigan battle Equine Encephalitis. Or Arizona with rabies along the border. Or Mississippi with tuberculosis. That was why we worked with you in 1978 to design the PHS 314(d) cost sharing incentive, and the companion accountability tool known as the National Public Health Program Reporting System. Apparently, this halfway house between block grants and categoricals - a national investment, state by state, in a defined set of services, subject to local priority setting, but accountable to you - has been all but abandoned. We do not understand why. But we urge you to do all you can to sustain the national investment in disease prevention and control. We urge you to sustain the Centers for Disease Control, which those of us in public health look to as our one beacon of hope and direction in an otherwise bizarre world of Federal acronyms.

My grandmother lost a daughter to diphtheria -- before the legendary Cy Young started the "Michigan Health Lab" which continues today as a state outpost in disease control. My mother nearly lost my youngest brother to whooping cough. My wife and I spent many anxious nights while our only daughter tossed and turned with a high fever from red measles. Today, for most part, in Michigan and most other states, despite the hard times, we are managing to keep the slate clean with respect to such diseases. We have not had a case of paralytic polio, due to wild strains, in Michigan since 1972. Help the country maintain such records.

In Michigan, as in the nation as a whole, our investment in sickness care in the last 15 years has far outstripped prevention. We pay about a billion yearly for Medicaid alone, compared with less than one-third billion for local and state health department services combined -- and many of these include treatment activities. This is a costly imbalance.

The case of the sleeping child tells us it is prudent to try to pay the lower cost of good health.

The Case of the Rocking Chair Man

In a nursing home in central Michigan, a 55-year old man spends most of his days rocking endlessly in a worn, maple rocker. He had uncontrolled high blood pressure for many years. A stroke at age 54 left him partially paralyzed. Even though our health department regulatory programs assure him a reasonable hope for quality care, he is a failure of public health. We did not act soon enough to help him learn to control his disease. We face more such losses to the extent that funding for prevention is reduced.

Each year, it is estimated that we needlessly lose 65,000 Americans to the plague of hypertension -- as many as from highway accidents. In Michigan, we estimate that less than one out of three of our nearly one million adults with hypertension have their blood pressure under control. You may have read in the Federal publication, "Prevention, '80" how intensive, systematic programs stimulated by your national investment are bringing a significant decline in mortality and demonstrating benefits of treatment. That is true. But in a year when you were spending less than $20 million nationally on hypertension, knowledgeable groups in Detroit estimated it would take $6 million to do the job in the Detroit area alone.

Where our country's local and state health department maternal and child health programs serve over 20 million people, and our communicable disease program about 30 million, our chronic disease programs (heart disease, cancer, stroke, diabetes, renal disease) serve only a little over five million. Last year, Dr. Bill Foege, who heads your Federal Centers for Disease Control (CDC), told us that, "We must develop better ways of surveillance by updating our systems from the relatively simple infectious disease models to the very complex models required for chronic diseases, environmental, and occupational programs." Good advice! But look at the investment levels in chronic disease control across the states and territories of our country. You will see quite a range. The Mississippi State Health Department, for instance, spends $2.5 million on these most common ways to become disabled or die, while Michigan, a larger state, spends $1.9 million. Our written testimony includes a table showing how this investment stands for each state across the country (Attachment 1).

The case of the rockingchair man tells us that it is prudent to try to avoid the high price of sickness.

The Case of the Adventurous Schoolgirl

In Lansing, Michigan, this afternoon, a 13-year old schoolgirl will pump 85 cents into a handy machine, and skip off to puff her cigarette in a corner of the summer playground. I know this will happen. I have made it a point to go out and look. What this child does not know is that in the past ten years, we have had in Michigan, an 85 percent increase in lung cancer deaths in women. She does not know that this is linked with the upsurge of fashionable cigarette smoking among women -- that, in fact, women who smoke like men die like men who smoke.

Recently, a national columnist (Paul Harvey News, May 11, 1981) said that more than half of every health care dollar goes to treat self-inflicted illnesses. In other words, 60 cents of every health care dollar treats diseases related to alcohol and tobacco. I do not vouch for his exact numbers. But you have heard the U.S. Surgeon General say, repeatedly, that cigarette smoking is the number one cause of preventable disability and death in our country. In Michigan, our best estimate is that smoking costs us 15,000 lives and a half billion dollars in medical bills yearly. What the columnist and others overlook is that public health made its reputation on massive, multi-generational health education campaigns. You have heard the stories of separation of the privy from the well to avoid intestinal disease. You have heard about keeping your hot foods hot and cold foods cold to avoid food poisoning. You may not have heard about the effort of public health agencies to outlaw the town drinking cup. In records of the last century, there are repeated threats that, even though the common drinking cup might spread infection, we should not outlaw it because, "How else will the Tinker get a cool drink as he passes through our town?" It took more than a quarter of a century to achieve that goal. The 56 state and territorial health departments, and over 3,000 county and city health departments, stand ready and are beginning to assume a commitment, in collaboration with the CDC, to a renewed campaign related to current behavioral causes of disability and death.

The case of the adventurous schoolgirl tells us that it is prudent to promote good health.

The Case of the Hungry Rats

In southeast Michigan, a three year old has scars around her face which will last her lifetime. She was bitten by rats in her crib. She will carry the evidence of those hungry rats into her teens and adult life. She is a failure of public health. We did not move fast enough to save her. The cost is in medical bills and whatever the scars may do to her life chances. We face more such losses to the extent that funding for prevention is reduced. Even though you have provided, in the past, some funds for the control of hazards such as rats and lead-based paint poisoning, the investment has not reached out sufficiently to help us do the job. In Michigan, for instance, we have six community programs in rat control, while nearly all urban centers have similar problems and are not helped.

In 1979, state health officials of the nation reported 3.9 million field inspections in environmental health, and 179,000 enforcement actions. But environmental health program data also show a broad variation in what is available and accessible to our people and communities, depending on which state you live.

The case of the hungry rats tells us that it is prudent to help people and communities try to protect themselves.

The Case of the Cancer Dust

In a small southern Michigan town of Adrian, Michigan tonight, a Mexican-American will lie awake worrying about his children. His home, his dooryard, the playground, the neighborhood, has been contaminated with a chemical dust which potentially can cause cancer. The dust (Curene 442) was spread by a nearby plant, where his family and most of his neighbors work. His fears are a failure of public health. We did not act in time to help protect this community. More communities will face such anxieties and disruption to the extent that prevention funds are reduced. The cost of clean-up, from private and public sectors, is expensive. The local and state governmental agencies have been and are being responsive to this severe problem. But we are playing catch up, having already lost the battle for community protection. In the May, 1981 notes from a meeting of staff working with our Michigan Health Department, "Chemicals and Health Center," there are 12 agenda items: PCBs in food and feed; contingency plan for animal disposal; neurologic effects, Oakland County; Kettlewell Landfill, St. Clair County; Anderson Development Company, Adrian; Berlin and Farro Incinerator, Swartz Creek; formaldehyde in homes; TCE contamination, Albion;

Arsenic contamination, Bad Axe; Dioxins; ground water testing/monitoring; and cattle poisoning incident, Sanilac County.

These are samples of the substantial tasks confronting local and state health departments of the country, in collaboration with environmental and agricultural agencies, and with our associates in the Centers for Disease Control. In relation to that latter point, in Michigan, we could not have responded to the public health aspects of PBB contamination of cattle, which got into our food chain, without ongoing technical assistance and funding organized by the CDC.

The case of the cancer dust tells us it is prudent to work with communities to prevent contamination.

Conclusion: Prudence and Public Health

We have emphasized that it is prudent to pay the lower cost of health rather than the higher price of sickness; that it is prudent to promote health; and prudent to help people and communities protect themselves and prevent contamination. The axiom remains that an ounce of prevention is still worth a pound of cure. In my written testimony, I include additional summaries indicating what the country will lose if public health is cut, and what we will gain if we sustain robust public health programs. We salute you. We stand ready to try to respond to your questions on behalf of the Association of State and Territorial Health Officials, and the men, women, and children of our country.

Thanks for listening.

* * * * *

Attachments:
1. Chronic Disease Expenditures, 1979
2. Potential reduction in services to Michigan mothers and children, based on a 25 percent cutback in Federal funds.
3. Michigan Perspective, 1981, from Proceedings, 31st Director's Conference, February 4-5, 1981, Lansing, Michigan.

THE ASSOCIATION OF STATE
AND TERRITORIAL HEALTH OFFICIALS
NATIONAL PUBLIC HEALTH PROGRAM REPORTING SYSTEM
SILVER SPRING, MD.
(301) 585-2520

ATTACHMENT 1

APPENDIX
TABLE 20

CHRONIC DISEASE PROGRAM EXPENDITURES OF STATE HEALTH AGENCIES, BY PROGRAM SUBCATEGORY (EXCLUDING SHA-OPERATED INSTITUTION PROGRAMS) FISCAL YEAR 1979

(THOUSANDS OF DOLLARS)

STATES AND TERRITORIES (1)	TOTAL CHRONIC DISEASE (2)	GENERAL CHRONIC DISEASE & SCREENING (3)	CANCER (4)	HYPERTENSION (5)	CARDIOVASCULAR DISEASES (6)	RENAL DISEASE (7)	OTHER CHRONIC DISEASES (8)
REGION I							
CONNECTICUT	867	-	-	778	-	-	89
MAINE	181	-	-	181	-	-	-
MASSACHUSETTS	1,061	-	-	235	32	-	794
NEW HAMPSHIRE	242	-	-	59	111	37	34
RHODE ISLAND	1,585	-	1,430	42	-	-	114
VERMONT	153	-	138	15	-	-	-
REGION II							
NEW JERSEY	2,583	274	408	339	-	759	803
NEW YORK	3,227	-	1,019	791	-	1,417	-
PUERTO RICO *	-	-	-	-	-	-	-
VIRGIN ISLANDS	11	-	-	11	-	-	-
REGION III							
DELAWARE	196	-	57	24	20	82	13
DIST. OF COL.	73	-	-	73	-	-	-
MARYLAND	6,178	3,298	297	260	-	2,322	-
PENNSYLVANIA	7,711	-	1,842	619	142	4,261	848
VIRGINIA	587	-	332	254	-	-	-
WEST VIRGINIA	240	-	-	87	153	-	-
REGION IV							
ALABAMA	907	-	576	331	-	-	-
FLORIDA	3,784	-	527	1,414	964	-	878
GEORGIA	4,492	3,687	-	804	-	-	-
KENTUCKY	1,361	-	374	475	153	264	94
MISSISSIPPI	2,537	-	365	964	292	-	915
NORTH CAROLINA	3,735	682	1,530	460	-	1,064	-
SOUTH CAROLINA	5,293	1,959	1,628	1,024	77	605	-
TENNESSEE	1,926	-	-	242	108	916	658
REGION V							
ILLINOIS	2,472	-	25	436	44	1,233	734
INDIANA	875	-	-	245	-	100	529
MICHIGAN	1,959	199	498	367	-	323	572
MINNESOTA	533	216	174	142	-	-	-
OHIO	1,053	598	-	455	-	-	-
WISCONSIN	1,748	72	-	211	12	1,414	39
REGION VI							
ARKANSAS	762	105	488	169	-	-	-
LOUISIANA	586	-	-	212	-	-	374
NEW MEXICO	683	190	-	493	-	-	-
OKLAHOMA	2,695	2,181	344	170	-	-	-
TEXAS	8,821	429	430	433	-	7,454	75
REGION VII							
IOWA	623	-	-	114	-	444	65
KANSAS	147	-	-	112	-	35	-
MISSOURI	1,555	296	198	455	25	-	581
NEBRASKA	553	-	-	86	-	400	67
REGION VIII							
COLORADO	430	322	-	107	-	-	-
MONTANA	178	36	-	60	83	-	-
NORTH DAKOTA	99	61	-	38	-	-	-
SOUTH DAKOTA	38	-	-	38	-	-	-
UTAH	657	47	367	195	48	-	-
WYOMING	373	-	173	-	23	177	-
REGION IX							
ARIZONA	529	-	173	132	-	224	-
CALIFORNIA	5,503	1,635	2,733	1,136	-	-	-
HAWAII	892	414	-	159	-	318	-
NEVADA	178	-	135	43	-	-	-
AMERICAN SAMOA	11	-	-	11	-	-	-
GUAM	53	-	-	-	-	-	53
NO. MARIANA IS.	-	-	-	-	-	-	-
TRUST TERRITORY	14	-	-	14	-	-	-
REGION X							
ALASKA	-	-	-	-	-	-	-
IDAHO	448	-	307	141	-	-	-
OREGON	341	-	-	341	-	-	-
WASHINGTON	1,005	-	266	122	-	617	-
TOTAL	84,740	16,703	16,833	16,120	2,288	24,468	8,329

* THE SHA IN PUERTO RICO DID NOT REPORT TO NPHPRS FOR FY 1979.

STANDARD NPHPRS SYMBOLS: - = ZERO OR NO DATA; X = PRESENCE OF A RESPONSE; # = LESS THAN 500; E = ESTIMATED, EITHER BY THE RESPONDENTS OR BY NPHPRS; U = DATA REPORTED AS UNOBTAINABLE BY RESPONDENTS; C = DATA FOR THIS ITEM COMBINED WITH REPORTING OF ANOTHER SERVICE OR PROGRAM.

NOTE: THE DATA IN THIS TABLE RELATE ONLY TO EXPENDITURES OF OFFICIAL STATE HEALTH AGENCIES. THE PUBLIC HEALTH EXPENDITURES AND SERVICES OF OTHER STATE AGENCIES SUCH AS SEPARATE MENTAL HEALTH AUTHORITIES, ENVIRONMENTAL AGENCIES, AND HOSPITAL AUTHORITIES ARE NOT REFLECTED IN THE NPHPRS DATA BASE.

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ATTACHMENT 2

POTENTIAL REDUCTION IN 1981-82 FEDERAL FUNDS
IMPLICATIONS FOR THE BUREAU OF PERSONAL HEALTH SERVICES
MICHIGAN DEPARTMENT OF PUBLIC HEALTH

The Bureau of Personal Health Services receives federal funds from several different sources: Titles V and XIX of the Social Security Act, Title X of the Public Health Service Act, WIC, 314(d), etc. A majority of the Bureau's program efforts address the needs of mothers and children. Therefore, a proposed 25% cut in Title V funds will have a significant effect on the Bureau. The program implications of a 25% cut are summarized below.

In 1980-81 the State of Michigan received almost $12 million in Title V funds for the maternal and child health and crippled children programs. A twenty-five percent cut in this funding would amount to almost $3 million.

Maternal and Child Health

State level consultation would need to be cut in several areas. The Bureau has a cadre of professional consultants in nursing, nutrition, medical social work and health education who provide technical assistance to state programs, local health departments and other agencies and organizations. Three of these consultant positions would be cut.

The Bureau also employs consultants in vision and audiology/speech who provide training for local vision and hearing technicians and other activities relating to the promotion of high quality vision, hearing and speech services for Michigan's preschool and school-age population. Three positons in both the vision and the hearing and speech programs would be cut. Training would be cut in half and public health otology clinics would be at 75% of the present offering.

A major service funded through Title V is the delivery of prenatal and post-partum care to low income predominantly high risk women and comprehensive health care to their infants (and to children to age 21 in Detroit/Wayne County). Several options are available in addressing funding reductions for these programs including closing one maternity and infant care clinic, two pediatric clinics, and one service site of another maternity and infant care project; eliminating the entire "core staff" of a major maternity and infant care/child health project in Detroit/Wayne County, thereby affecting adversely the quality of services and the coordination of activities among a multitude of service providers; and eliminating services to all infants in the maternity and infant care projects, thereby reducing the program to maternity care only.

In addition to the above mentioned cuts, it is anticipated that a reduction in Title V funds would result in the total elimination of three special MCH programs: a program that provides preventive, educational and remedial dental services for elementary school children and emergency dental services for older children located in the western part of Michigan's Upper Peninsula; a program that annually provides evaluation and diagnosis of abnormalities of development of over 100 children up to seven years of age, which are due, or suspected to be due to neurological dysfunction and that serves as a training site for pediatric residents, graduate students of nursing, and students in other disciplines; and a program that serves as a central focus for early identification and medical and nutritional intervention relating to treatable metabolic diseases, especially for children suspected of having phenylketonuria (PKU).

Crippled Children

The Michigan Crippled Children Program is operated through five regional offices to facilitate direct client contact through interviewing, referrals and case management activities. These regional offices would be eliminated and the program administered centrally through the State Office.

The program also would be forced to deny care to 500-600 children currently eligible for medical care and treatment services. Transportation assistance would be eliminated, affecting nearly 1300 children and families.

In addition, it is anticipated that funding cuts would result in the elimination of a special program for handicapped children--the Area Child Amputee Center. This program serves children from birth to age 21 years throughout the United States who have congenital or acquired limb deficiencies.

ATTACHMENT 3

From Proceedings, 31st Director's Conference
Feb. 4-5,1981
Lansing,Mich.

MICHIGAN PERSPECTIVE - 1981

Ted Ervin
Acting Director
Michigan Department of Public Health

Given this title, it might not be inappropriate just to say, "Money; Lack of it", and sit down. Dr. Reizen used to suggest, as you'll recall, that meetings like this have two themes. One is: Talk to me. The other is: Give me more money! We also have a dollor prophet with us. When Dr. Whalen and I left a hearing room in Washington a couple of years ago, after being whiplashed over the PHS 314(d) formula funds, he said, "Ted, if we keep working on this long enough, we may get it down to zero yet." As you may know, that's about where 314 is right now. Finally, we've looked for 25 years for a place to use the formula Henry Vaughan gave us when he was Dean of the School of Public Health. I'm sure we mentioned to this Conference once that Henry cited three primary public health problems. He said, "Number one is money; number two is money; and number three is money." We finally almost applied this one night not long ago, when Stu Paterson and I were trying to find a way to give a linear priority ranking to budget items - 1 through 97, ranging from radiological health, to health facility regulation, to the crippled children's program, to cost sharing, and all the rest. At one point, we figured out that since money was our main problem, we'd rank programs from the most money to the least money, and let it go at that. We may have been close to perpetual fiscal theory without knowing it. I'll keep with tradition by getting into fiscal problems during the course of this talk, but in the next few minutes would also like to expand the focus to include a little public health; looking backward; then at our present concerns; and finally ahead as best we can.

Yesterday

Glancing behind us I remember coming into public health in the state TB association in 1947 when TB was still killing 1,400 or so Michigan people a year; when we had 5,000-6,000 new cases yearly; when 18 state and county TB hospitals were filled with the sick, some of them virtually there for lifetimes; and state and local health departments collaborated in tuberculin testing and X-ray campaigns to find those who had the disease, help them to isolation and treatment, and gradually corner the waxy-skinned tubercule bacillus, then often called the last of the great plagues. Even though today we see some resurgence of TB, particularly coming with refugees from other parts of the world, what a lot was done and achieved by state and local health departments - working together.

I remember being in the packed building in Ann Arbor that day, April 12, 1955, when Salk polio vaccine was called safe, effective, and potent; and when state and local health departments, which had been involved in the field trial conducted by the late Dr. Tommy Francis at the School of Public Health, jubilantly organized and pumped the vaccine into the arms of thousands of children; beginning the drive which put iron lungs in the junk yard, and returned Michigan parents to sanity in the warm months, rather than the fear of our dread polio summers. [illegible] was done by - working together!

I remember when we got in line for a million dollars worth of German measles vaccine even before it was licensed, worked with voluntary agencies, private physicians, hospitals, and all other community groups to get the vaccine out to fireproof the population as soon as it was released; the rubella hero campaign, and Doctor Reizen, *then in the Ingham County Health Department, hit it so hard that he* not only ran out of vaccine, but what was worse, he ran out of dragon killer buttons to give the kids as they got their shots. Then we saw German measles start up in the state, as projected; and we worried for fear we were too late, and would have just as many rubella-damaged babies as other states, but then the curve broke, flattened, and nosedived. It looked so good that we accused staff of lying with statistics, but it was true, and we'd done it - working together!

I remember being up at remote Sugar Island in the St. Mary's River and then at the Soo, on a fall weekend in 1980 with some of you, and some of our associates in the Department of Natural Resources and Agriculture as well, and having Tom Cooper (of White Cloud) tell us that from the viewpoint of a concerned commissioner and board of health member environmental concerns have been hypered up to the point where, "If you spill a thimbleful of PCB in the back woods on a dull day, the newspapers might have a crisis headline." He and many of you urged us to restore and strengthen those lines of communication so you can help us, and we can help you, instead of confusing each other and our communities with a lot of communication noise and doubletalk. While we haven't licked this one yet, in a number of recent episodes, we've seen state and local environmental health, and Natural Resource and Agriculture staffs locking arms, rather than locking their teeth on each others jugulars - trying to do the job - together.

Those things and many more you and I and our associates can remember, and the good has come about as we've put aside trivial differences, and zeroed in on common objectives, without worrying who is at fault for mistakes and who gets credit for accomplishments, knowing that blame is usually shortlived, (and only to learn by), and credit comes in the end to us all - with the sum greater than its parts - when the job is well done - together!

Today

That brings us to today, and I'll begin by sharing with you reflections from a recent experience of trying to talk with almost all of the staff of the State Health Department, from Detroit, to Lansing, to Grand Rapids; I've not been up to the Upper Peninsula on this round, but did get up to Iron River last fall, so maybe Ken Rowe, who introduced us when both he and Dick Potter got the well-deserved U.P. Award will count that visit and ask me up again in 1981. For one thing we were asking staff to enroll in the so-called work reduction program, where State employees may forego up to eight hours of pay in a two week pay period, and take it later as annual leave or as pay at the time of separation or retirement. We've had a jump of nearly 50% so far in enrollment in the program since those meetings, delaying thousands of dollars in expenditures. I've been impressed with the feedback which says that even in this plastic world where big bureaucracy tends to alienate and isolate the individual, there is a spark of that "old time public health" which can be rediscovered and flame brightly. During the course of many of these sessions, we recalled with the groups the parting words of Dr. Homer Hitchcock, as he closed the first meeting of the old Board of Health held in Kalamazoo over 100 years ago, saying, "I welcome you to this work, grand, self-sacrificing and sublime." Corny by today's standards, perhaps - but reaction of staff to some of that homely sentiment has been good - and augurs well for the future.

That does not, of course, relieve us from the stark fact that for Michigan, and for state and local health departments, this year of 1980-81 is one of the toughest in a long time - certainly worse than anything we've seen in a quarter of a century. In the State Health Department, we've lost 20% of our general fund budget, sizeable chunks of Federal funds; and may lose even more; we're still trying to find nearly $3 million in savings so we don't have to lay off good staff - whom we'll hopefully be able to afford beginning next year. From the State level, for local departments, as you know, you've had a $3 million dollar reduction taken so late and so rapidly in the process that it probably doubled the problem for you. More chopping may be necessary, especially if the new administration in Washington succeeds in doing what it thinks it must do to being expenditures down and improve the economic climate. In addition, we have a wave of regulatory reform, which may well be warranted, but which could result in throwing the babies out with the bathwater unless we hold the line for those programs and those policies, procedures, and activities which are truly essential for the protection of the public health. You'll be seeing, with the next Circular, a draft design for a rapid initial study of six of the regulatory type programs, mandated by the Legislature, in which we're trying as best as we can to provide an open participation process; but we're supposed to finish the hospital study by March 1, and the remaining five by May 15 - namely nursing homes, clinical labs, radiological sources, food sanitation, and swimming pools. So the time lines are tight; we're going to listen to you and others as well as we can; and get in a product on time - which the Public Health Advisory Council has cautioned us to view in an incremental way - as a first step in a much longer job to see if we can streamline without giving up public health protection. That's a tall order!

Against this somewhat bleak current backdrop, and just as Lieutenant Governor Brickley told this conference last year, there is in the Governor's 1981 State of the State message a strong, continued commitment to the health code and to cost sharing as times improve; the Governor's budget recommendation for '81-82 brings back general fund in the health department to $95 million, including bringing cost sharing up, from what we all hope will be the rock bottom of $12 million this year, to $16.8 million for 1981-82 - short of target, but a new beginning. (Incidentally, the final spread sheets on that money for this year are just now getting out, and proved to be much more complicated to compute with equity than we imagined. We can, however, demonstrate fair play with the final tabulations. On the hopeful side, I urge you also to collaborate with the work of the special Coalition now being organized to speak for public health at the policy level; and also to pick up on the action of the Public Health Advisory Council, which has been following the Governor's directive to try to develop alternatives for funding. The Council is defining an attack on critical health problems, using as one focal point the report of a panel on cigarette smoking and health, which the Governor called for last year, and which is just now getting distributed.

Tomorrow

This brings us to the future, where there is some hope if we use our past experience of working together to develop new beginnings for preventive medicine and public health in keeping with the conservative tone of these times. At the risk of redundancy, once again, I want to quote Dr. Bill Foege, head of the National Centers for Disease Control. Dr. Foege says:

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> "One of the key contributions we can make to improving prevention delivery is by providing memory. My grandmother had ten children and five died in infancy. My mother had six children and none died in infancy. Yet, that one-generation marvel is lost on my own children unless I provide that memory. Those of us in public health must provide the memory for those following us; for those providing appropriations; for those providing assistance, so that immunization levels never again fall. We must be the conscience against the inevitable but foolish tide that protects low-yield but glamorous cure, at the expense of high-yield, easily unnoticed prevention. We must make prevention an acceptable philosophy of the practitioner. We must develop better ways of surveillance by updating our systems from the relatively simple infectious disease models to the very complex models required for chronic diseases, environmental, and occupational problems."

Let's punctuate that challenge with an example of the problems ahead of us. In one of his reports on Smoking and Health, the U.S. Surgeon General repeats the now familiar assertion that "Smoking is the largest preventable cause of death in America." In this report, which happens to be the one for 1979, he goes on to identify annual U.S. deaths related to cigarette smoking as including 80,000 from lung cancer; 22,000 from other cancers; up to 225,000 from heart and circulatory disease; and over 19,000 from chronic lung diseases. He also points out to us that while some containment is being brought about, lung cancer has increased fivefold among American women since 1955. He adds: "Women who smoke like men die like men who smoke."

Here is what the grim statistical sentinel looks like for Michigan. This chart shows the yearly percentage increase in lung cancer death rates among women in Michigan. Age adjusted, it has gone up 85% in these ten years, the actual number of deaths went up 108.4% from 467 in 1970, compared with 973 in 1979. That compares with a 9.4% (age adjusted) increase for males in the same 10 year period; from 2,191 to 2,766 lung cancer deaths. In Michigan we should work toward the idea that "The only place you should light cigarettes is in your incinerator!" And this is, as we know, only one of many examples of opportunities ahead to help Michigan families and communities pay the lower cost of good health rather than the high price of sickness in the eighties.

Conclusion

To conclude, I'm looking forward to the remainder of this program, both what we can learn from our associates, and especially what we can learn from you as a result of the workshops this afternoon. We are willing to go to the press tomorrow morning with whatever local health officers and local officials come up with and hope that the Michigan Department of Public Health family will hold back, so what we get is what you think and recommend, as candidly as possible. Immediately after the banquet tonight, we will meet with representatives of MHOA and listen carefully to whatever advice may be offered as to the value of going public with everything, as against any editing you might like to do in the aftermath of the conference. Thanks for listening.

The Association of State and Territorial Health Officials National Public Health Program Reporting System

The Association of State and Territorial Health Officials (ASTHO) Reporting System collects comprehensive data on the Nation's state health agencies (SHAs). The Reporting System, initiated in 1970, began as a mechanism for documenting SHA expenditures of Section 314(d) (Public Health Services Act) funds, the pioneer federal block grant. The ASTHO Reporting System also documents all public health expenditures of the 57 SHAs by source of funds and program area. The attached tables are examples of fiscal year 1980 expenditure data reaggregated to display distribution of funds by new block grants. The two block grants included in these tables are Preventive Health and Health Services and Maternal and Child Health.

Highlights of fiscal year 1980 expenditure data for the 57 SHAs (after reaggregation into two selected block grants) include:

- the 57 SHAs spent $4.5 billion for public health services ($5.8 billion if local health department (LHD) expenditures are included);
- the Preventive Health and Health Services block grant accounted for 21% of total federal grants and contracts and 7% of total SHA expenditures for communicable disease programs; and
- the Maternal and Child Health (MCH) block grant accounted for 24% of total federal grants and contracts and 18% of total SHA expenditures for MCH programs.

Services data are also collected in the areas of personal health, environmental health, health resources, and laboratory. These data, when combined with expenditure information, provide a comprehensive picture of the Nation's SHAs. The 57 SHAs and over 3,000 LHDs provided a wide range of services in fiscal year 1980 including:

- Direct health services to 74 million persons -- one of every three Americans;
- Prevention of communicable diseases among preschool and school age children and influenza among the elderly and high risk populations by immunizing over 17 million people;
- Screening of 47 million people, including 14 million for venereal diseases; 10 million for visual acuity; 8 million for hearing acuity; 6 million for dental diseases; and 4 million for tuberculosis;
- Prevention and response to disease outbreaks using epidemiological methods and surveillance mechanisms;
- Prevention of potential solid and hazardous waste disasters by making more than 60,000 site inspections;
- Development of emergency medical services by providing development grants, technical assistance, and advocacy or promotion, and regulation of EMS technicians, transport services, and free-standing emergency rooms; and
- Analysis of nearly 44 million specimens and samples to prevent and detect disease and environmental hazards.

TABLE 1. PUBLIC HEALTH PROGRAM EXPENDITURES OF STATE HEALTH AGENCIES, BY SOURCE OF FUNDS, FISCAL YEAR 1980

STATES AND TERRITORIES (1)	TOTAL SHA EXPENDITURES (2)	FEDERAL GRANTS AND CONTRACTS				STATE (7)	LOCAL (8)	FEES, REIMBURSEMENTS, AND OTHER (9)	OTHER SOURCES (10)
		TOTAL FEDERAL GRANTS AND CONTRACTS (3)	PREVENTION BLOCK GRANTS (4)	MCH BLOCK GRANTS (5)	OTHER FEDERAL (6)				
	(thousands of dollars)								
TOTAL	$4,953,378	$1,550,073	$105,437	$335,447	$1,109,188	$2,538,871	$114,046	$200,177	$54,211
REGION I	236,131	89,234	8,111	18,357	62,766	145,960	217	718	-
CONNECTICUT	44,998	23,219	2,276	3,578	17,365	21,778	-	-	-
MAINE	20,228	12,663	1,837	2,779	8,047	6,847	-	718	-
MASSACHUSETTS	126,000	28,794	1,955	7,313	19,526	97,206	-	-	-
NEW HAMPSHIRE	9,162	4,912	584	1,627	2,701	4,250	-	-	-
RHODE ISLAND	21,362	9,013	429	1,690	6,894	12,348	-	-	-
VERMONT	14,381	10,633	1,030	1,370	8,233	3,531	217	-	-
REGION II	746,250	214,978	9,694	41,262	164,022	328,365	-	1,585	1,323
NEW JERSEY	97,444	52,340	3,110	5,811	43,419	43,192	-	1,585	327
NEW YORK	340,818	102,625	4,508	26,196	71,921	[illegible]7,198	-	-	996
PUERTO RICO	266,100	55,213	1,334	8,053	45,826	[illegible]887	-	-	-
VIRGIN ISLANDS	41,888	4,800	742	1,202	2,856	[illegible]088	-	-	-
REGION III	816,080	173,201	9,827	43,925	119,449	569,772	51,519	13,435	8,251
DELAWARE	29,145	4,504	523	1,345	2,636	24,225	-	511	5
DIST. OF COL.	103,473	21,733	378	6,136	15,219	81,739	-	-	-
MARYLAND	341,152	47,145	1,059	8,113	37,973	261,719	27,581	631	4,075
PENNSYLVANIA	137,651	53,384	5,476	17,475	30,433	80,744	-	2,861	661
VIRGINIA	114,754	31,848	1,887	8,337	21,624	46,329	23,938	9,425	3,215
WEST VIRGINIA	89,905	14,587	504	2,519	11,564	75,016	-	7	295
REGION IV	771,247	312,074	20,304	67,377	224,393	332,068	43,420	69,683	14,002
ALABAMA	54,844	35,127	2,250	6,920	25,957	18,035	-	1,481	202
FLORIDA	129,905	37,407	4,679	7,172	25,556	51,856	27,739	10,227	2,676
GEORGIA	87,211	43,260	3,301	10,898	29,061	42,861	-	906	183
KENTUCKY	144,985	37,801	2,316	8,694	26,791	74,800	-	32,383	-
MISSISSIPPI	52,690	29,091	1,469	7,219	19,403	12,497	5,074	7,028	-
NORTH CAROLINA	104,422	46,909	2,160	11,435	33,314	48,179	-	-	9,333
SOUTH CAROLINA	100,296	40,825	2,689	7,812	30,324	41,144	6,385	11,943	-
TENNESSEE	96,894	42,654	1,440	7,227	33,987	42,696	4,222	5,715	1,608
REGION V	496,403	261,274	19,658	55,328	186,288	210,682	2,946	16,182	5,317
ILLINOIS	76,725	43,891	3,244	8,411	32,236	32,834	-	-	-
INDIANA	42,623	25,464	2,377	5,777	17,310	17,159	-	-	-
MICHIGAN	181,688	70,588	4,599	11,915	54,074	97,455	310	12,822	514
MINNESOTA	46,890	22,111	1,772	6,021	14,318	22,743	-	-	2,036
OHIO	110,738	75,259	4,862	18,531	51,866	29,983	2,636	91	2,767
WISCONSIN	37,739	23,961	2,804	4,673	16,484	10,508	-	3,269	-
REGION VI	407,497	169,787	8,973	36,013	128,801	179,403	12,533	25,358	20,414
ARKANSAS	38,257	19,523	865	5,598	13,060	18,088	-	646	-
LOUISIANA	66,902	33,401	1,483	7,536	28,382	17,093	7,047	1,050	8,311
NEW MEXICO	83,359	19,022	1,453	2,840	14,729	51,748	82	11,726	781
OKLAHOMA	41,761	19,743	982	3,145	15,616	13,364	5,402	2,976	275
TEXAS	177,218	78,098	4,190	16,894	57,014	79,110	2	8,960	11,047
REGION VII	128,915	67,634	7,397	21,471	38,766	51,197	-	9,994	89
IOWA	23,516	14,955	1,568	3,412	9,975	8,555	-	6	-
KANSAS	25,510	15,658	1,821	3,445	10,392	8,759	-	1,089	4
MISSOURI	64,203	25,960	2,508	7,747	15,705	30,745	-	7,497	-
NEBRASKA	15,686	11,061	1,500	6,867	2,694	3,138	-	1,402	85
REGION VIII	146,034	77,844	5,759	14,646	57,439	60,970	1,355	4,639	1,266
COLORADO	49,030	28,263	1,874	4,876	21,513	20,767	-	-	-
MONTANA	17,753	13,154	1,165	1,750	10,239	4,097	-	12	490
NORTH DAKOTA	26,467	9,391	490	1,353	7,548	12,641	-	4,083	392
SOUTH DAKOTA	12,035	8,342	517	2,226	5,599	2,949	538	52	154
UTAH	25,987	14,372	962	3,214	10,196	10,110	783	492	230
WYOMING	14,762	4,322	751	1,227	2,344	10,406	34	-	-
REGION IX	609,052	129,607	10,123	26,532	92,952	422,008	1,642	53,003	2,800
ARIZONA	89,384	29,335	1,159	4,186	23,990	51,551	-	6,032	2,466
CALIFORNIA	369,568	77,053	7,046	16,878	53,129	278,869	-	13,311	334
HAWAII	112,351	12,236	583	2,124	9,529	66,455	-	33,660	-
NEVADA	13,387	5,882	363	1,803	3,716	5,863	1,642	-	-
AMERICAN SAMOA	7,154	785	221	270	294	6,369	-	-	-
GUAM	4,350	800	189	432	179	3,550	-	-	-
NO. MARIANA IS.	2,613	846	156	167	522	1,767	-	-	-
TRUST TERRITORY	10,255	2,671	406	672	1,593	7,584	-	-	-
REGION X	95,763	54,439	5,591	10,536	38,312	34,443	412	4,019	748
ALASKA	16,041	3,172	1,192	824	1,156	12,135	111	-	623
IDAHO	20,195	12,240	688	2,151	9,401	7,542	-	287	125
OREGON	22,121	13,751	1,647	2,146	9,958	4,637	-	3,732	-
WASHINGTON	37,406	25,276	2,064	5,415	17,797	10,129	301	-	-

NOTE: THE DATA IN THIS TABLE RELATE ONLY TO EXPENDITURES OF OFFICIAL STATE HEALTH AGENCIES. THE PUBLIC HEALTH EXPENDITURES OF OTHER STATE AGENCIES SUCH AS SEPARATE MENTAL HEALTH AUTHORITIES, ENVIRONMENTAL AGENCIES, AND HOSPITAL AUTHORITIES ARE NOT REFLECTED IN THE NPHPRS DATA BASE.

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TABLE 2. COMMUNICABLE DISEASE CONTROL PROGRAM EXPENDITURES OF STATE HEALTH AGENCIES, BY SOURCE OF FUNDS, FISCAL YEAR 1980

STATES AND TERRITORIES (1)	TOTAL COMMUNICABLE DISEASE CONTROL (2)	FEDERAL GRANTS AND CONTRACTS				STATE (7)	LOCAL (8)	FEES AND REIMBURSEMENTS (9)	OTHER (10)
		TOTAL FEDERAL GRANTS AND CONTRACTS (3)	PREVENTION BLOCK GRANTS (4)	MCH BLOCK GRANTS (5)	OTHER FEDERAL GRANTS (6)				
				(thousands of dollars)					
TOTAL	$139,724	$83,849	$9,167	$1,095	$33,587	$88,879	$6,632	$949	$215
REGION I	9,900	3,006	710	-	2,296	6,879	-	16	-
CONNECTICUT	1,212	398	3	-	395	814	-	-	-
MAINE	1,033	569	151	-	418	448	-	16	-
MASSACHUSETTS	5,971	1,371	469	-	902	4,600	-	-	-
NEW HAMPSHIRE	392	174	29	-	145	218	-	-	-
RHODE ISLAND	814	295	11	-	284	519	-	-	-
VERMONT	478	199	47	-	152	279	-	-	-
REGION II	10,378	4,571	1,232	280	3,059	5,807	-	-	-
NEW JERSEY	4,496	1,993	668	-	1,325	2,503	-	-	-
NEW YORK	2,220	1,699	229	280	1,190	521	-	-	-
PUERTO RICO	3,499	735	335	-	400	2,764	-	-	-
VIRGIN ISLANDS	163	144	-	-	144	19	-	-	-
REGION III	19,288	4,799	1,887	-	2,912	12,892	1,592	-	5
DELAWARE	206	94	33	-	61	111	-	-	-
DIST. OF COL.	1,546	687	-	-	687	859	-	-	-
MARYLAND	4,894	976	485	-	491	2,327	1,592	-	-
PENNSYLVANIA	8,395	2,004	1,369	-	635	6,386	-	-	5
VIRGINIA	3,337	805	-	-	805	2,532	-	-	-
WEST VIRGINIA	910	233	-	-	233	677	-	-	-
REGION IV	38,301	8,712	1,445	285	6,982	25,030	3,567	899	91
ALABAMA	3,976	953	-	5	948	3,023	-	-	-
FLORIDA	10,443	2,151	561	-	1,590	5,650	2,306	335	-
GEORGIA	2,307	1,344	176	-	1,168	948	-	15	-
KENTUCKY	3,740	520	-	-	520	3,220	-	-	-
MISSISSIPPI	4,696	690	60	-	630	2,951	828	227	-
NORTH CAROLINA	1,998	720	31	59	630	1,221	-	-	57
SOUTH CAROLINA	2,129	1,278	547	41	690	768	-	83	-
TENNESSEE	9,012	1,056	70	180	806	7,249	433	239	34
REGION V	15,066	7,195	900	140	6,155	7,869	-	-	1
ILLINOIS	1,761	1,047	53	-	994	714	-	-	-
INDIANA	1,182	679	159	-	520	502	-	-	-
MICHIGAN	5,029	1,953	313	86	1,554	3,076	-	-	-
MINNESOTA	848	485	31	-	454	363	-	-	1
OHIO	4,944	2,145	87	40	2,018	2,798	-	-	-
WISCONSIN	1,302	886	257	14	615	416	-	-	-
REGION VI	22,063	5,153	1,239	-	3,914	15,382	1,473	25	32
ARKANSAS	2,116	487	5	-	482	1,630	-	-	-
LOUISIANA	4,188	1,437	535	-	902	1,912	838	-	-
NEW MEXICO	2,305	649	358	-	291	1,657	-	-	-
OKLAHOMA	2,178	778	341	-	437	740	635	25	-
TEXAS	11,276	1,802	-	-	1,802	9,443	-	-	32
REGION VII	4,990	2,173	496	64	1,613	2,817	-	-	-
IOWA	1,019	433	23	-	410	586	-	-	-
KANSAS	890	373	172	-	201	517	-	-	-
MISSOURI	2,479	1,130	301	50	779	1,349	-	-	-
NEBRASKA	602	237	-	14	223	365	-	-	-
REGION VIII	3,675	2,137	364	6	1,767	1,498	-	8	33
COLORADO	1,486	873	86	-	787	613	-	-	-
MONTANA	305	193	28	-	165	112	-	-	-
NORTH DAKOTA	444	220	5	-	215	191	-	-	33
SOUTH DAKOTA	579	426	187	-	239	146	-	8	-
UTAH	613	229	46	-	183	385	-	-	-
WYOMING	248	196	12	6	178	51	-	-	-
REGION IX	11,286	3,696	287	-	3,409	7,536	-	-	53
ARIZONA	1,865	483	-	-	483	1,328	-	-	53
CALIFORNIA	6,698	2,153	-	-	2,153	4,545	-	-	-
HAWAII	1,812	372	119	-	253	1,440	-	-	-
NEVADA	615	392	-	-	392	223	-	-	-
AMERICAN SAMOA	101	101	38	-	63	-	-	-	-
GUAM	143	143	105	-	38	-	-	-	-
NO. MARIANA IS.	-	-	-	-	-	-	-	-	-
TRUST TERRITORY	52	52	25	-	27	-	-	-	-
REGION X	4,777	2,407	607	320	1,480	2,370	-	-	-
ALASKA	1,403	357	40	-	317	1,046	-	-	-
IDAHO	804	313	128	-	185	491	-	-	-
OREGON	652	598	439	72	87	54	-	-	-
WASHINGTON	1,918	1,139	-	248	891	779	-	-	-

NOTE: THE DATA IN THIS TABLE RELATE ONLY TO EXPENDITURES OF OFFICIAL STATE HEALTH AGENCIES. THE PUBLIC HEALTH EXPENDITURES OF OTHER STATE AGENCIES SUCH AS SEPARATE MENTAL HEALTH AUTHORITIES, ENVIRONMENTAL AGENCIES, AND HOSPITAL AUTHORITIES ARE NOT REFLECTED IN THE NPHPRS DATA BASE.

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TABLE 3. MATERNAL AND CHILD HEALTH PROGRAM EXPENDITURES OF STATE HEALTH AGENCIES, BY SOURCE OF FUNDS, FISCAL YEAR 1980

STATES AND TERRITORIES (1)	TOTAL MATERNAL AND CHILD HEALTH 1/ (2)	FEDERAL GRANTS AND CONTRACTS				STATE (8)	LOCAL (9)	FEES AND REIMBURSEMENTS (10)	OTHER (11)
		TOTAL FEDERAL GRANTS AND CONTRACTS (3)	PREVENTION BLOCK GRANTS (5)	MCH BLOCK GRANTS (6)	OTHER FEDERAL GRANTS (7)				
(thousands of dollars)									
TOTAL	$1,233,837	$948,646	$733	$223,629	$724,285	$219,073	$26,918	$26,798	$12,401
REGION I	59,746	53,660	122	10,315	43,223	5,922	103	60	-
CONNECTICUT	15,578	15,182	-	1,933	13,249	396	-	-	-
MAINE	9,243	8,110	36	2,281	5,793	1,073	-	60	-
MASSACHUSETTS	17,444	16,065	-	4,006	12,059	1,379	-	-	-
NEW HAMPSHIRE	3,890	2,563	-	621	1,942	1,326	-	-	-
RHODE ISLAND	6,021	4,597	-	1,249	3,348	1,424	-	-	-
VERMONT	7,570	7,143	86	225	6,832	324	103	-	-
REGION II	130,194	111,806	31	29,725	82,050	18,347	-	-	41
NEW JERSEY	25,121	[illegible]806	-	3,037	21,769	283	-	-	31
NEW YORK	65,209	63,757	31	20,799	42,927	1,442	-	-	10
PUERTO RICO	36,380	20,795	-	4,907	15,888	15,585	-	-	-
VIRGIN ISLANDS	3,484	2,448	-	982	1,466	1,037	-	-	-
REGION III	155,338	97,435	-	28,716	68,719	46,624	7,076	3,947	254
DELAWARE	4,301	2,980	-	980	2,000	1,096	-	224	-
DIST. OF COL.	7,704	5,698	-	5,425	273	2,006	-	-	-
MARYLAND	27,067	20,792	-	5,874	14,918	4,047	2,205	-	23
PENNSYLVANIA	61,432	34,127	-	8,537	25,590	27,257	-	-	49
VIRGINIA	39,848	23,457	-	5,538	17,919	7,616	4,871	3,723	182
WEST VIRGINIA	14,982	10,381	-	2,362	8,019	4,602	-	-	-
REGION IV	322,887	235,903	511	46,487	188,905	56,217	17,179	9,430	4,156
ALABAMA	28,203	27,232	-	6,408	20,824	302	-	669	-
FLORIDA	52,490	28,178	-	6,671	21,507	11,422	9,294	2,979	616
GEORGIA	41,909	32,448	-	5,703	26,745	8,879	-	546	36
KENTUCKY	31,242	27,284	-	6,161	21,123	3,958	-	-	-
MISSISSIPPI	28,332	22,247	-	5,034	17,213	2,869	1,867	1,349	-
NORTH CAROLINA	57,527	39,051	-	7,740	31,311	15,173	-	-	3,302
SOUTH CAROLINA	40,028	27,767	17	4,901	22,849	6,654	4,209	1,398	-
TENNESSEE	43,156	31,696	494	3,869	27,333	6,960	1,809	2,489	202
REGION V	173,237	151,737	68	38,083	113,586	16,943	-	4,557	-
ILLINOIS	38,148	33,148	-	7,971	25,177	5,000	-	-	-
INDIANA	14,660	14,603	-	3,431	11,172	57	-	-	-
MICHIGAN	49,887	37,511	-	7,806	29,705	7,819	-	4,557	-
MINNESOTA	2,494	1,264	-	624	640	1,230	-	-	-
OHIO	51,735	50,370	60	13,864	36,446	1,365	-	-	-
WISCONSIN	16,313	14,841	8	4,387	10,446	1,472	-	-	-
REGION VI	138,101	112,860	-	24,901	87,959	8,758	2,518	7,020	6,945
ARKANSAS	14,324	14,018	-	5,461	8,557	306	-	-	-
LOUISIANA	38,960	27,189	-	5,209	21,980	3,413	1,407	6	6,945
NEW MEXICO	8,724	5,996	-	2,063	3,933	2,728	-	-	-
OKLAHOMA	15,526	12,621	-	2,752	9,869	1,790	1,111	4	-
TEXAS	60,567	53,036	-	9,416	43,620	521	-	7,010	-
REGION VII	47,394	42,189	1	11,292	30,896	5,200	-	-	6
IOWA	10,906	10,324	-	2,833	7,491	582	-	-	-
KANSAS	8,001	7,708	-	1,699	6,009	293	-	-	-
MISSOURI	21,925	17,700	1	4,831	12,868	4,226	-	-	-
NEBRASKA	6,562	6,457	-	1,929	4,528	99	-	-	6
REGION VIII	41,282	38,711	-	10,235	28,476	2,321	-	20	230
COLORADO	14,114	12,718	-	3,744	8,974	1,396	-	-	-
MONTANA	7,794	7,457	-	914	6,543	325	-	12	-
NORTH DAKOTA	4,586	4,516	-	1,298	3,218	71	-	-	-
SOUTH DAKOTA	4,439	4,431	-	1,565	2,866	-	-	8	-
UTAH	9,724	9,006	-	2,131	6,875	488	-	-	230
WYOMING	625	583	-	583	-	41	-	-	-
REGION IX	126,167	69,941	-	17,033	52,908	56,132	12	59	22
ARIZONA	23,304	19,294	-	2,988	16,306	3,988	-	-	22
CALIFORNIA	88,493	40,902	-	11,204	29,698	47,591	-	-	-
HAWAII	8,770	4,840	-	1,220	3,620	3,870	-	59	-
NEVADA	4,415	3,873	-	836	3,037	530	12	-	-
AMERICAN SAMOA	175	175	-	121	54	-	-	-	-
GUAM	373	220	-	79	141	153	-	-	-
NO. MARIANA IS.	138	138	-	138	-	-	-	-	-
TRUST TERRITORY	499	499	-	447	52	-	-	-	-
REGION X	39,897	34,405	-	6,842	27,563	2,610	30	1,703	748
ALASKA	2,936	1,107	-	489	618	1,205	-	-	623
IDAHO	5,525	5,391	-	1,318	4,073	9	-	-	125
OREGON	10,953	10,730	-	1,824	8,906	221	-	2	-
WASHINGTON	20,083	17,177	-	3,211	13,966	1,175	30	1,701	-

1/ INCLUDES $629.7 MILLION EXPENDED BY THE SHAS FOR WIC/MCH NUTRITION PROGRAMS. EXCLUDES $223.5 MILLION SPENT BY THE SHAs FOR HANDICAPPED CHILDREN'S SERVICES PROGRAMS.

NOTE: THE DATA IN THIS TABLE RELATE ONLY TO EXPENDITURES OF OFFICIAL STATE HEALTH AGENCIES. THE PUBLIC HEALTH SERVICES OF OTHER STATE AGENCIES SUCH AS SEPARATE MENTAL HEALTH AUTHORITIES, ENVIRONMENTAL AGENCIES, AND HOSPITAL AUTHORITIES ARE NOT REFLECTED IN THE NPHPRS DATA BASE.

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CALIFORNIA INVENTORY OF PUBLIC HEALTH PROGRAMS

		FY 1980 Expenditures		
		Total SHA Expenditures	Prevention Block Grant Expenditures	MCH Block Grant Expenditures
TOTAL PUBLIC HEALTH EXPENDITURES		$369,567,657	$7,045,772	$16,877,651
PERSONAL HEALTH AREA, TOTAL		150,092,249	950,160	16,877,651
SUPPORTING PERSONAL HEALTH SERVICES				
CONTRACT COUNTIES HEALTH SERVICES (NURSING)		1,050,506	-	-
MATERNAL AND CHILD HEALTH				
INFANT HEALTH CARE		3,356,387	-	3,232,798
GENETIC DISEASE PREVENTION		2,572,659	-	654,723
WIC SUPPLEMENTAL FOOD		25,646,448	-	-
CHILD HEALTH DISABILITY PREVENTION (INCL. EPSDT)		16,397,005	-	-
FAMILY PLANNING		30,282,507	-	48,981
MATERNAL HEALTH CARE		6,504,423	-	3,534,762
CHILDREN & YOUTH PROJECTS		3,733,255	-	3,733,255
HANDICAPPED CHILDREN'S SERVICES				
CRIPPLED CHILDREN'S SERVICES		41,616,213	-	5,673,132
COMMUNICABLE DISEASE CONTROL				
IMMUNIZATION ASSISTANCE		2,840,898	-	-
OTHER INFECTIOUS DISEASE CONTROL		1,414,297	-	-
TUBERCULOSIS CONTROL		364,922	-	-
VENEREAL DISEASE CONTROL		2,078,368	-	-
DENTAL HEALTH				
DENTAL HEALTH		306,977	-	-
CHRONIC DISEASE				
CHRONIC DISEASE CONTROL (GENERAL)		1,612,429	-	-
HYPERTENSION CONTROL		1,177,885	746,565	-
CERVICAL CANCER SCREENING		20,638	-	-
RESOURCE FOR CANCER EPIDEMIOLOGY		1,711,561	-	-
OTHER PERSONAL HEALTH				
HUMAN POPULATION LABORATORY		96,974	-	-
PREVENTIVE HEALTH CARE FOR THE AGING		850,409	-	-
INDIAN HEALTH		2,564,127	-	-
RURAL HEALTH		3,893,361	203,595	-
ENVIRONMENTAL HEALTH AREA, TOTAL		16,384,825	955,912	-
CONSUMER PROTECTION AND SANITATION				
FOOD & DRUG		3,809,777		
VECTOR BIOLOGY CONTROL		2,195,961		
OCCUPATIONAL HEALTH AND SAFETY AND RELATED AREAS				
PESTICIDE, NOISE & AIR POLLUTION CONTROL		162,413	(program detail not available this year)	
RADIATION CONTROL				
RADIOLOGIC HEALTH		2,455,279		
WASTE MANAGEMENT				
HAZARDOUS MATERIALS MANAGEMENT		1,978,689		
WATER QUALITY				
SANITARY ENGINEERING		4,347,204		
GENERAL ENVIRONMENTAL HEALTH				
LOCAL ENVIRONMENTAL HEALTH		675,942		
CONTRACT COUNTIES ENVIRONMENTAL HEALTH-SANITARIAN		759,560		
HEALTH RESOURCES AREA, TOTAL		25,888,751		
HEALTH RESOURCES DEVELOPMENT				
COUNTY HEALTH SERV./LOCAL PUBLIC HEALTH ASSISTANCE		449,982		
HEALTH RESOURCES REGULATION				
LICENSING & CERTIFICATION		13,743,852		
HEALTH STATISTICS				
CENTER FOR HEALTH STATISTICS		1,058,435		
VITAL STATISTICS		3,030,480		
GENERAL HEALTH RESOURCES				
MEDI-CAL & PREPAID HEALTH PLANS		7,262,088		
DISASTER MEDICAL SERVICES		343,914		
LABORATORY AREA, TOTAL		13,870,703		
LABORATORY		13,870,703		
GENERAL ADMINISTRATION, TOTAL		29,301,616		
FUNDS TO LHDS, TOTAL	215,097,765			
FUNDS INCLUDED IN PROGRAMS ABOVE, TOTAL	81,068,252	-	5,139,700	-
FUNDS NOT ALLOCATED TO PROGRAMS	134,029,513	134,029,513		

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MICHIGAN INVENTORY OF PUBLIC HEALTH PROGRAMS

		FY 1980 Expenditures		
		Total SHA Expenditures	Prevention Block Grant Expenditures	MCH Block Grant Expenditures
TOTAL PUBLIC HEALTH EXPENDITURES		$181,688,283	$4,598,107	$11,914,641
PERSONAL HEALTH AREA, TOTAL		139,741,825	1,020,895	11,798,341
SUPPORTING PERSONAL HEALTH SERVICES				
NUTRITION		218,000	-	-
MATERNAL AND CHILD HEALTH				
MATERNAL & CHILD HEALTH (GENERAL)		11,451,026	-	7,656,003
FAMILY PLANNING		4,921,101	-	150,000
WIC SUPPLEMENTAL FOOD		25,571,485	-	-
EPSDT		7,805,338	-	-
SICKLE CELL COUNSELING / EDUCATION		137,986	-	-
HANDICAPPED CHILDREN'S SERVICES				
CRIPPLED CHILDREN'S SERVICES		22,350,540	-	3,852,188
COMMUNICABLE DISEASE CONTROL				
COMMUNICABLE DISEASE CONTROL (GENERAL)		489,804	-	-
IMMUNIZATION		1,609,354	-	86,400
TUBERCULOSIS		776,815	-	-
VENEREAL DISEASE		2,152,773	312,800	-
DENTAL HEALTH				
DENTAL HEALTH		345,620	-	53,750
CHRONIC DISEASE				
CHRONIC DISEASE (GENERAL)		256,886	-	-
CANCER RESEARCH		612,664	-	-
RENAL DISEASES		402,582	-	-
HYPERTENSION		1,249,761	528,281	-
DIABETES & HYPOGLYCEMIA		385,110	-	-
MENTAL HEALTH AND RELATED PROGRAMS				
ALCOHOL ABUSE		17,198,272	-	-
DRUG ABUSE		17,774,32	-	-
OTHER PERSONAL HEALTH				
LOCAL PERSONAL HEALTH		11,722,318	9,014	-
OTHER PERSONAL HEALTH		1,900,513	170,800	-
SHA-OPERATED INSTITUTIONS				
MICHIGAN VETERANS FACILITY		10,409,897	-	-
ENVIRONMENTAL HEALTH AREA, TOTAL		12,578,250	1,516,066	-
CONSUMER PROTECTION AND SANITATION				
FOOD SANITATION		466,526		
MIGRANT CAMPS		241,383		
ENVIRONMENTAL SANITATION (GENERAL)		2,519,486		
OCCUPATIONAL HEALTH AND SAFETY AND RELATED AREAS				
OCCUPATIONAL HEALTH		2,712,251	(program detail not available this year)	
RADIATION CONTROL				
RADIATION CONTROL		1,425,952		
WATER QUALITY				
WATER SUPPLY		2,008,030		
GENERAL ENVIRONMENTAL HEALTH				
LOCAL ENVIRONMENTAL HEALTH		3,204,662		
HEALTH RESOURCES AREA, TOTAL		11,461,189	1,289,646	-
HEALTH RESOURCES DEVELOPMENT				
HEALTH MANPOWER DEVELOPMENT (TRAINING)		1,240,519		
HEALTH FACILITY PLANNING & CONSTRUCTION		661,997		
HEALTH RESOURCES REGULATION				
HEALTH MAINTENANCE ORGANIZATIONS		241,227	(program detail not available this year)	
HEALTH STATISTICS				
VITAL & HEALTH STATISTICS		1,846,653		
GENERAL HEALTH RESOURCES				
HEALTH FACILITY LICENSING & CERTIFICATION		4,933,009		
EMERGENCY MEDICAL SERVICES		2,537,784		
LABORATORY AREA, TOTAL		11,454,579	505,500	-
LABORATORY (GENERAL)		9,194,397		
ENVIRONMENTAL EPIDEMIOLOGY		1,926,649	(program detail not available this year)	
LABORATORY REGULATION (LICENSING)		333,533		
GENERAL ADMINISTRATION, TOTAL		6,452,480	266,000	116,300
FUNDS TO LHDS, TOTAL	77,446,983			
FUNDS INCLUDED IN PROGRAMS ABOVE, TOTAL	77,446,983			
FUNDS NOT ALLOCATED TO PROGRAMS	-			

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mcf *Searching for Cures*
Helping the Cancer Patient
Michigan Cancer Foundation

Meyer L. Prentis Cancer Center
110 E. Warren Avenue
Detroit, Michigan
(313) 833-0710

December 14, 1981

Irvin Hytner
Oversight Subcommittee of the House Ways and Means Committee
1101 Longworth, House Office Building
Washington, D.C. 20515

Dear Mr. Hytner,

In response to the request for testimony by the Oversight Subcommittee of the House Ways and Means Committee, the Michigan Cancer Foundation - Patient and Family Care Service wishes to comment on those issues which have been encountered by our staff.

We believe the proposed changes will have a great effect on the Metropolitan Detroit area and Southeastern Michigan. In view of the budget cuts expected and the present unemployment situation as well as the projected lay-offs, we can anticipate an increased need for health services. As block grants become effective, we may notice a greater impact on health care services available to those who are unemployed.

From our experience we have seen people unemployed, yet over income for eligibility of Medical Assistance. They simply do not have enough funds to afford the high cost of health insurance and medical services.

As yet there is no hard evidence which we can cite where our clientele have been affected by federal cuts and do not know how or to what extent proposed cuts will affect services. However, we are able to project based on the present difficulty one has in obtaining medical services for the elderly and those with catastrophic diagnoses and illness.

We have seen women who require a breast biopsy, who may be unemployed or have no health insurance and are faced with a struggle to qualify for eligibility for Medical Assistance, County Medical Programs, low-income clinics, or Hill-Burton funds. We know of a situation involving two generations of a family where a man who has had a laryngectomy and is unable to resume any type of work must expect his college age son, with considerable potential, to help support the family. Prior to the recent revisions in the Social Security benefits providing for an individual's college education, this bright young man may have had an opportunity to reach his potential.

If cuts to already existing programs are instituted, which will make it more difficult than what it is now to obtain medical services, then anticipated cuts to those programs never affected will place greater hardship on those who require medical follow-up on an expedient basis.

A Torch Drive United Way Agency

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We must also consider the anxiety generated which may develop as a result of the financial stress and concern associated with catastrophic illness. The stress to search for services affects whole families not only the individual who is ill in the family.

As a community agency attempting to facilitate health care services for the medically indigent, we are limited by the options available which may be explored and utilized. This is a problem that has become more severe in the Metropolitan Detroit area due to the "economic depression" that has affected almost every level of human services. People who never in their lifetime have had to ask for help from their community and it's agencies are now faced with searching for resources to help defray the cost of not only medical services but also basic living needs such as food, heat, and electricity.

Sincerely,

Kathryn Hershberger

Kathryn Hershberger, A.C.S.W.
Triage Social Worker
Patient and Family Care Services
MICHIGAN CANCER FOUNDATION
Detroit, Michigan 48201

Arleene Levin

Arleene Levin, M.S.W.
Clinical Social Worker
Patient and Family Care Services
MICHIGAN CANCER FOUNDATION
Detroit, Michigan 48201

AL/jef

For: Michigan Citizens Supporting the Presidency.
From: McMaster Associates Public Relations, Troy, Mich.
Contact: Bill McMaster.

DETROIT, MICH., December 8, 1981.—The following statement was submitted to Congressman Dan Rostenkowski of the House Ways and Means Committee during a public hearing in the Detroit City County Building, December 8, 1981 by Richard Headlee, chairman of the board, Michigan State Chamber of Commerce. Headlee is also president of Alexander Hamilton Life Insurance Company of America (the largest life insurance company domiciled in Michigan), and chairman of Michigan Citizens Supporting the Presidency.

"It is obvious from the agenda of speakers invited by the House Ways and Means Committee to testify today that your purpose is to provide a platform for politically blasting President Reagan rather than to objectively examine the impact of federal spending in Michigan. Almost all of your speakers were among the minority of Michigan citizens who campaigned against President Reagan a year ago and who are today trying to blame their own leadership failures on Reagonomics.

"Let's look at Michigan under President Carter and under President Reagan.

"A year ago, Michigan's unemployment rate was the highest in the nation at 12.8 percent. Today, Michigan's unemployment rate is down one percent, but still the highest in the U.S.

"Under President Carter a year ago, interest rates in Michigan were at an all time high of 21½ percent. Today, interest rates are down to 15¾ percent.

Despite the tens of millions of dollars poured into Michigan over several years through the 'War on Poverty', both the City of Detroit and the State of Michigan still spent more money than they took in from all revenue sources. Last summer, before President Reagan and the Congress began to bring federal spending under control, Mayor Coleman Young said the City of Detroit was already bankrupt and salvagable only with the imposition of a higher tax on commuters working in Detroit.

Similarly, the State of Michigan was unable to match income to spending as constitutionally required by fiscal yearend October 1, 1981.

All of us need to remember that Reagan budget cuts, which became effective October 1, 1981, and with a few exceptions like the War on Poverty funds, are only cuts in the scheduled budget increases recommended by President Carter and not actual cuts in the historical base funding of existing federal programs. I note that the federal government today is spending a record $106 billion it doesn't have. But the distribution and supervision of those funds is being changed under President Reagan. Instead of cities like Detroit, school districts and, in fact most beneficiaries of federal funds receiving money direct from the federal government, President Reagan and the Congress are now sending those funds to the State of Michigan for distribution and supervision. Taxpayers rightfully believe we get more for our money the closer we get to local control. So what that municipalities and school districts with formerly direct pipelines to Washington are upset that they now have to deal with Lansing. President Reagan should be commended for making that needed change.

"Our worry is not that there have been drastic budget cuts in vital federal programs; there have not. Our concern is whether the bureaucrats in Lansing have the wherewithall to effectively administer federal funds.

"The administrative record of state government in Michigan has not been very good.

"In October, Governor William Milliken went on statewide TV saying:

'Never in all my years of public service have I seen our state in as critical a period as it is right now.

'It is not an overstatement to say that Michigan is fighting for its economic life.'

"Michigan's economic problems are self-inflicted and cannot be blamed on President Reagan.

"Michigan needs to check the growth of state government in the same manner President Reagan is bringing the growth of federal government under control.

"The number of State of Michigan employees has increased 61 percent in 12 years. The total number of state employees at present is 150,268—Judiciary (1,954 employees), Colleges and Universities (80,300 employees) and Legislative (1,078 employees).

"The State of Michigan is now the largest employer in Michigan. General Motors ranks second. Yet even as General Motors continues laying off both blue collar and white collar workers while trying to negotiate contract concessions from the UAW in order to bring automobile prices back into line, the state Legislature in Lansing is paying state employees Christmas bonuses on top of the 9 percent pay hike granted October 1, 1981. Michigan's state employees were already paid at a 23 percent higher rate than the national average.

"Increasing property taxes are a major problem in Michigan unaffected by Reaganomics. It takes three years for the State of Michigan to seize your home and sell it through a tax sale if you can't pay your local taxes.

"The number of properties sold in tax sales has been increasing along with the increase in property taxes:

Noticed in 1976, Sold in 1979—114,713 different properties over $1,000 in value were sold by State.

Noticed in 1977, Sold in 1980—116,478.

Noticed in 1978, Sold in 1981—127,094.

"Federally caused inflation is a severe problem in Michigan.

"Under President Carter, the average gross weekly wage in this country in 1980 was almost 62 percent higher than in 1973 * * * but thanks to inflation the purchasing power of those wages was actually nearly 13 percent less. And while the average American worker was earning nearly 13 percent less, Federal income taxes on those wages increased more than 27 percent * * * and Social Security taxes were more than 11 percent higher. Over that same period, while the average wage earner was watching his buying power errode * * * spending on defense decreased 1.6 percent and health and income security payments increased 47.5 percent.

"Whatever the short term losses appear to be in cutting back increases on entitlements * * * they are nothing compared to the devastation of our economy if we don't improve the real earning power of working Americans.

"Perhaps the House Ways & Means Committee will be surprised to learn today that the people of Michigan will benefit the most from the tax cut portion of President Reagan's economic package.

"Michigan currently ranks last among the 50 states in the return on our money sent to Washington. Michigan loses 34 cents on every $1 sent to the federal government. The big winner is New Mexico, which gets back $1.91 for every $1 its citizens send to Washington. So the more of our tax money we keep in Michigan rather than send to Washington, the better off we in Michigan are.

"Michigan taxpayers will save a minimum of $5.7 billion per year when the full 24 percent tax reduction takes its total effect within three years.

"That $5.7 billion represents approximately half of the total 1982 budget for the government of the State of Michigan. Or, in other words, the state could operate for six months on what the Reagan plan will be saving Michigan taxpayers.

"Based on a 24 percent savings from the $23 billion, 394 million in federal income taxes paid by Michigan citizens for the year 1980, the minimum of $5.7 billion kept home by 1984 may well make Michigan the greatest benefactor of the President's new tax bill.

"Taxpayers will also keep more of what they earn because of other changes passed along with the income tax cut. They include new benefits in tax-deferred retirement plans, Keogh plans, savings certificates, charitable deductions, foreign-earned income and the so-called marriage penalty. Perhaps as important as the tax cut itself is the fact that President Reagan has stopped the insidious practice of free-spending politicians paying for social experiments by piling even more taxes on the already stooped backs of taxpayers.

"A story in the October 13 edition of The Detroit Free Press illustrates how Michigan can help itself with local involvement and wiser use of federal funds. Johnathon York, 31, staff director of the Northeast Detroit Guidance Center was turned down when he asked for $140,000 in federal funds to construct a playground for the daily exercise of physically handicapped children. He recruited 100 volunteers and built the playground for $6,000 in materials.

"The majority of the people of Michigan voted for President Reagan a year ago. Today, we endorse his leadership in helping reduce inflation and taxes. We hope the House Ways & Means Committee will continue to do its part in working to improve the economic climate in America by supporting President Reagan's programs."

NOTE.—Michigan Citizens Supporting the Presidency is an organization whose supporters feel the President's policies and their impact on Michigan citizens should be more factually explained.

MICHIGAN LEGAL SERVICES,
Detroit, Mich., December 10, 1981.

JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means,
Washington, D.C.

DEAR MR. SALMON: Michigan Legal Services is a statewide, specialized legal assistance program, which functions to supply support services to local legal services programs throughout the state. We have also functioned in the past to provide direct representation to clients and client organizations on matters which have the potential for significant statewide impact.

Because our major role has been to provide backup services to local programs, we do not do direct intake and—normally—do not receive a significant number of calls directly from clients. In the past couple of months, however, we have received innumerable calls weekly from persons in the tri-county area surrounding Detroit where our main office is located. The calls, in the main, relate to reductions and cutbacks in the cash assistance and food stamp programs which were enacted by Congress last summer, and requests for legal assistance to restore the lost benefits. It has been more than difficult to inform callers that legal representation will not help them—that the reductions are due to a change in federal laws and policy.

I would like to share with you just two of the calls I have received:

1. Working mother of two small children receiving an AFDC supplement.—This woman lives in Wayne County, and works 25 hours a week in a minimum wage job for a gross earned income of $351.75 a month. Under the old law, prior to October 1, she had disposable income of $569 a month, or $137 over the AFDC need standard of $432 for a family of her size in Wayne County.

In our conversation she seemed to realize that previously, for her 100 hours of work a month, she had only been ahead $137. She felt that she was gaining experience and getting a foothold in the labor market. Now she was only ahead $23 for her 100 hours of work and she could not understand why the government would do this to her just as she was getting important work experience.

I tried to explain that many changes were affecting her disposable income: the new method of deducting the $30 and one-third earned income deduction after other deductions; the withdrawal of Title XX money for help with her day care, now to be considered an expense of employment, and capped below her actual costs (Michigan did supply a day care supplement for working mothers for October and November but she had not received it as yet—besides she always paid $42 a month over and above the day care payments); the new change which only allowed her $70 for work expenses including taxes; the inclusion of an advanced Earned Income Tax Credit in her gross income.

I did not have her budget in front of me, but it seemed clear from my calculations that she was getting the amount to which she was entitled—the new laws were simply limiting further the money available to her to support herself and her two children, regardless of her employment effort.

Further, I felt it necessary—in terms of her need to plan carefully—to inform her that after four months she would not be receiving her earned income disregard of $30 and one-third at all. We figured it out and at that point she will only have a disposable income of $401—a loss of $168 per month from her income prior to October 1, and $31 less than if she was not employed at all. Close to tears, all she could respond was that her heat and utilities cost her $168 a month in the winter. She did not know what she was going to do--maybe she should quit her job, but she was in hopes of being put on fulltime next summer when a co-worker retired. I did not have the heart to tell her that her financial situation would not improve—her AFDC supplement might be lost altogether with the new 150 percent of need standard cap on eligibility.

2. Young mother's loss of food stamps.—This nineteen year old woman lives in Southwest Michigan with her baby and her parents of moderate income. She called because her food stamps case was closed due to "too much income."

She wanted a lawyer to help her because, she said, her income hadn't changed—in fact she got a notice that her AFDC check was going to be reduced by 6 percent on December 1 because the state was short of money.

I tried to explain that I did not think a lawyer could help her—that her parents' income was probably being counted as available to her, that they were being treated as one household under the new laws. She told me that her parents had helped her so much since she decided to have her baby and keep it—they did not charge her any rent, so she tried to be independent beyond that. Her parents were trying to save for their retirement and her dad had been laid off for two months twice in the last eighteen months.

She got a small AFDC check, $146 a month, which she used for hers and the baby's clothes and other things they needed, and she got their food with her food stamps. (The whole family did not eat together anyway—she cooked separately and ate with the baby; her father worked nights and her parents ate at different times.)

She did not know how she was going to buy her food and everything else they needed out of $146 a month, now that she could not have food stamps. She asked if she would be eligible for food stamps if she lived apart from her parents. I had to answer yes—and also a rent and utilities allowance in her AFDC grant. She questioned how this new law was going to save money if people like her were forced into living apart from their parents.

I could give you many more examples of the impact of recent federal changes on human lives which we have been hearing over the phone. They would not sound dissimilar from those above, however. People just simply cannot make it financially with the latest reductions—and especially in Michigan with its cold winters, its generally high cost of living and state cutbacks necessitated by the current economic depression.

Yours truly,

BEVERLY LEOPOLD MCDONALD,
Deputy Director.

NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES,
MICHIGAN FEDERATION OF CHAPTERS,
Royal Oak, Mich., December 2, 1981.

House Ways and Means Committee,
Longworth House Office Building,
Washington, D.C.

DEAR MR. DOWLEY AND MR. RUSSO: My name is Cornelius Janbroers. I am a retired letter carrier and at present I am Legislative Chairman of the Michigan Federation of Chapters, NARFE with a total membership in the state of 8,100 members and Legislative Liaison Officer for the Michigan 18th & 19th Districts for the NALC.

I wish to state here and now that our membership is 100 percent against any budget cuts affecting retired Federal Employees and those in the future. On October 1, 1981 all Federal & Postal Retirees did not receive their just due COLA increase which amounts on an average of $595.00 loss to us.

The Reagan Administration has proposed several budget cuts affecting the retiree and they are.

1. A cap on the March 1, 1982 COLA increase until October 1, 1982.

2. To change the formula on COLA; this would include CPI or wage index whichever is less, using a Federal wage index (which is capped at 4.8 percent for the next three years) to determine COLA; and setting COLA 3 percent below the CPI. By losing one COLA already we are now on an even scale with Social Security Retirees, but we have to pay Income Tax on our annuity while Social Security Retirees do not. This is not fair.

3. The Federal Employees Health Benefit Plans have come under attack as to expensive, therefore proposals will be made to change the relationship between Medicare and Federal Employees Health Benefit Plans, making Medicare the secondary payer instead of the primary payer. This premium change could cause many retirees to pay as much as 430 percent more for some plans, plus reductions in benefits. Active Federal & Postal Employees would be also receive this increase along with the retired employee who does not have Social Security Medicare.

4. H.R. 3207 contains Section 301 which is designed to curtail the level of Social Security benefits by eliminating what has been called the "windfall" benefit which states that anyone receiving the minimum of $122.00 or less per month would lose dollar for dollar if the or she receives an annuity of $300.00 or more per month. This benefit is for those workers who spent a portion of their careers in noncovered employment. I am sure the committee knows about the "windfall" benefit so that I will not have to go into a complete detail on it.

We are against the "All Savings Certificates" issued by banks whereby a depositor can deduct up to $2000.00 in interest from his Income Tax received from these certificates and the $200 to $400 allowed to deduct from stock dividends. These benefits help the rich while the average retiree can only receive 5½ to 6 percent on his small savings account if he has one. This rebate on the new All Savings Certificates will amount to billions of lost revenue to the government, when they are trying to force budget cuts down the throats of the elderly and retirees.

5. Universal Social Security Coverage—This will be before Congress after the 1982 elections. Forcing Social Security on government employees constitute a breach of contract and failure of due process. "Grandfathering current workers—placing only new hires under Social Security is a false economy. Funding two separate retirement systems is costly. Retirement income is taxed while Social Security is not. Some 3.9 billion in taxes from Federal & Postal Workers would be lost under the merger.

Regardless of all of these proposals and the amount of money they (Reagan Administration) will save or lose prices on all commodities will continue to rise. The Reagan Administration is supporting all of these proposals in good faith they are still lacking in truth.

Why are the elderly and retirees receiving the blunt and abuse for the ills of the government. We have paid and shouldered our share for years. We deplore the attitude of the Reagan Administration against us. Promises have been made and broken.

I want to thank the committee on behalf of NARFE and the NALC for allowing me to express our views on the budget cuts and having this letter recorded into the minutes of the committee.

Thank you for your kindness and cooperation, I am Sir.

Sincerely Yours,

CORNELIUS JANBROERS,
Legislative Chairman, Michigan Federation, NARFE; Legislative Liaison Officer, NALC.

THE SALVATION ARMY,
HARBOR LIGHT CENTER,
Detroit, Mich., December 11, 1981.

Re testimony from the bleachers.

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means,
Washington, D.C.

DEAR MR. SALMON: Please enter these comments as testimony before the House Ways and Means Committee in connection with their visit to Detroit on December 8, 1981.

I was one of the many direct service providers who came to the hearing with the hope of giving testimony and discovered that the proceedings were highly structured and that the only ones permitted were high ranking politicians, bureaucrats, business and labor. All of these people had their own agendas.

You must have gone back to Washington completely frustrated and confused by the conflicting testimony from the representatives of the various "Ivory Towers".

Mr. Robert Little, Director of Social Service for Wayne County, came the closest to telling it like it is. Dr. Jack Dempsey, Director of the Michigan Department of Social Services made his predictable statement based on his political loyalties (Republican appointee). He said that the cuts had not made a significant difference in his department's ability to provide for basic needs. That was not an exact quote, however, it captures the essence.

Mr. Dempsey does not pick up frozen bodies in the winter or burned bodies from abandoned buildings. He doesn't perform funerals for the unwanted, helpless and hopeless.

I do not pretend to understand the large scale political and economic problems and remedies. However, a grand plan that considers the poor, the old and the sick to be expendable frightens me.

The hearing ended with the most significant question asked through the whole day left unanswered. Representative Sam Gibbons (Florida) asked one of the panel members about the reason for the high number of teacher absences in the Detroit Schools. I was sitting way in the back with the rest of the direct service providers and, of course, had to strain to hear the testimony. One of the panelists was talking about the utility rates. I thought he was saying "futility" rate, and I thought someone has finally found the real way to look at this problem.

The problem in Detroit is the futility rate!! Someone ought to develop a futility index. This is the answer in the public schools. Teachers are working with children with little hope from families with little hope and they have no hope to offer them. They are suffering from combat fatigue. Of course you would expect a high rate of absenteeism.

We have the same problem through the whole service delivery network. Anyone involved in direct service delivery could have told you that. Imagine yourself a front line worker in the public Social Services office having to sit all day turning away the old, the sick, the homeless and the hungry. Think of the high futility index in those offices.

Please be assured that I am not committed to an economic policy nor to a political party. This is a report of how it looks where the rubber hits the road.

Sincerely yours,

JOHN C. MACDONALD, *Captain.*

SOAR COALITION OF MICHIGAN,
Detroit, Mich., December 8, 1981.

Hon. DAN ROSTENKOWSKI,
Chairman, House Ways and Means Committee,
House of Representatives.

DEAR MR. CHAIRMAN: I would like to thank you, our friend from Michigan, Congressman William Brodhead, and the other members of the Ways and Means Committee, for the opportunity to present testimony for the record on the impact of the federal budget cuts, on the 25,556 federal retirees in Michigan.

As chairman of the Save Our Annuity Retirement (SOAR) Coalition of Michigan, a state representative of the national fund to Assure an Independent Retirement (FAIR) Coalition, I am pleased at the chance to provide information for you in your deliberations, and that you decided to hold this hearing at this time in Michigan, which is suffering so dearly as one of the states most affected by our country's current depression.

While federal employees, both active and retired, have traditionally always focused most of their attention on the House Post Office and Civil Service Committee, now chaired by another Michigan friend, Congressman William Ford, we have learned that the style and structure of the current federal budget process now requires us to seek input into that process through whatever channels we might find receptive.

It is within this context that we now present our information: that decisions are now being made in the federal budget process which are and could affect the federal retiree, and that this same federal retiree, even here in Michigan, is being drastically affected by cuts in his benefits, due to cutbacks in the federal budget—as much, if not more, than any other retiree on a fixed income.

Sincerely,

IVORY TILLMAN, *Chairman.*

STATEMENT OF IVORY TILLMAN, CHAIRMAN, THE SAVE OUR ANNUITY COALITION OF MICHIGAN, A STATE REPRESENTATIVE, FUND TO ASSURE AN INDEPENDENT RETIREMENT (FAIR) COALITION

IMPACT OF FEDERAL BUDGET CUTS ON MICHIGAN FEDERAL RETIREES

Like other groups, federal retirees have also had their share of drastic setbacks, resulting from cuts in the federal budget. However, it is our contention that federal retirees have already suffered from previous cutbacks, and that these latest cuts over the past year are causing the 25,556 federal retirees in Michigan to start losing their fight to maintain adequate buying power in the face of double-digit inflation and escalating costs. This has also had an impact on the state's economy, in terms of decreased buying power, and in decreased local and state tax revenues.

In addition, these latest cuts in federal retiree programs have further singled out this one group of citizens, whose retirement program, the Civil Service Retirement System, has already been substantially reduced through prior pay caps and cutbacks in cost of living allowances.

An overall perspective, in Michigan

There are 18,617 federal retiree annuitants in Michigan, who receive $881 per month, on average. There are 6,939 survivor annuitants in Michigan, who receive $417 per month, on average. Prior to October 1981, federal retires were scheduled to receive a cost of living allowance (COLA) adjustment, computed as of September Consumer Price Index (CPI) of 4.9 percent, or $43.17 per month per annuitant and $20.43 per month per survivor annuitant, but federal retirees did not receive the COLA adjustment at this time, because of cutbacks in the federal budget.

For Michigan, this meant a total decrease in income to these annuitants of $945,460 per month, or, if figured on an annual basis, $11.4 million per year.

Estimated overall impact on Michigan

The total of $945,460 per month, or $11.4 million in lost income to residents of this state does not tell the whole story, however, nor does it render an accurate picture of the overall impact of just this one cutback.

There were two other "side" effects of this loss of income.

First, some economists estimate that the loss of $11.4 million per year in disposable income to a population group which uses at least 90 percent of such income for goods and services, could mean an overall impact on the state's economy in the magnitude of $120 million, because of a factor called the marginal propensity to consume.

Simply stated, if we can assume that federal retirees would use 90 percent of their annuity for various goods and services, which would be a conservative estimate indeed for a basically elderly population group facing increasing medical costs due to aging, then we can use a multiplier of 10 to represent the overall effect that those dollars would have on the state's economy, as they are recycled from one consumer to another.

Second, the loss of that $11.4 million per year not only means the loss of $1 million in federal tax revenues, since federal annuities are taxable, but also a loss of state and local tax revenues, which in Michigan would include taxes on income, sales and other goods. A conservative estimate would be 5 percent, or a total loss per year of $600,000, state-wide.

Michigan, to say the least, can ill afford the loss of either income, or taxes, particularly since it already does not receive equity in dollars returned from Washington, for revenues sent.

Why the cuts are not fair

Besides this economic data, we contend, as reapresentatives of Michigan's federal retirees, these budget cuts are not fair, and single out this one population group living on a fixed income, making it difficult for federal retirees to survive the escalating costs of living in this Northern climate, including sky-rocketing electrical and heating bills.

First, it seems as though the temptation is so very great for those involved with the budget process at any level of government—whether local, state or national—to first target the various pay, benefit and retirement programs as a way of balancing budgets, rather than admitting that the current economic problems are being caused by many complex factors, including an unprecedented inflation rate, and dealing with it accordingly through tighter planning, improved efficiency, and reduction of duplication.

The same has been true at the federal level. Rather than working to coordinate programs and seek greater efficiency, we contend the President, and Congress, are taking an easier way our by cutting employee benefits and retirement programs.

Instead of dealing with the politically risky Social Security system, Congress, and OPM, keep tampering with federal retiree benefits, reducing them over the years in various ways. The additional reductions that are being contemplated will be counter-productive, since they will gut the program of its fundamental strength as a retirement annuity worthy of the name. This would also destroy its effectiveness as a major motivation for career longevity by federal employees.

Second, the Civil Service Retirement System is an annuity, based on contributions from the employer and employee to a trust fund. This concept makes it substantially different from other entitlement programs, where, such as in the Social Security program, actual contributions do not equal benefits received.

In addition, the CSR is a legal and contractural commitment by the government as employer to the federal employees.

Thus, we can not understand why federal retirees, who have participated in the CSR within this context, should be singled out, for cuts, when Congress has shown a distinct reluctance to cut benefits to recepients of Social Security Old Age funds, which was established under a different context and meant as an income floor, not the "pension" it has come to mean in recent years.

We also object to cutbacks in either the level of benefits, or in the frequency or formula of the COLA adjustment. Despite the many myths in the media, the intent of the COLA adjustments are to merely keep the value of the benefits at the same net value as anticipated, in terms of buying power, nothing more. To cut back the frequency or formula, means a net loss in retirement benefits to the annuitants, since their retirement dollar comes to a net value of less and less. An example of this is the recent delay in COLA adjustment for federal retirees, from this past October, 1981, until next March, in 1982. This represents more than a delay of six months. It actually represents a delay of 16 months, since it reflects inflation from January, 1981. We would also note that, in 1979, the Advisory Council on Social Security recommended that Social Security have a twice-a-year adjustment, because of the extreme lag time otherwise with just an annual adjustment, between adjustments, because of the detrimental impact it had on the net purchasing power of those receiving Social Security benefits.

Third, we believe that the current budgeting process has improper priorities, resulting in the targeting of human service programs, employee benefits and the like for cutbacks, while giving almost a blank check to the Pentagon for defense spending.

While we believe in adequate protection for this country as much as the next person, we can not understand the type of thinking that sets aside $1.4 trillion for defense, but slashes this human program and that.

If it is true that you can tell the quality of values of a given society or culture, by the way it treats its elderly, then it is pathetic indeed that our federal government is paying for new military toys by requiring the poor, infirm, disadvantaged and aged give up dollars they use for food, clothing, heat, medicine, and rent or house payments.

Fourth, we contend the need, or the apparent need, to even discuss wholesale changes in the CSR system is only the result of double-digit inflation, which has resulted in COLA adjustments and limits on investment yields from money market funds, interest rates and Treasury bills. But the basic system is sound. Even the President's Commission on Pension Policy admitted that much in January, 1980, and so did the Congressional Budget Office several months later. According to the CBO, the CSR Trust Fund reserves in FY '80 totaled $73.6 billion, or five times annual outlays. The obvious answer here is not a meat-axe approach, but to curb inflation, which would take away the crisis.

Recommendations

1. Review and evaluate budgeting priorities.
2. Reduce defense spending to within reasonable and rational bounds. Eliminate waste and such excesses as the tendency of the National Reconnaissance Office (Air Force budget) to annually exceed its budget by 4–5 times. Develop only those weapons essential to national security, and only those which would substantially add to the range and versatility of defense.
3. Re-institute and maintain cost of living allowances at a twice-a-year frequency, for both Social Security and CSR, and stop tampering with the CSR as a budgetary option.

4. Develop a program of encouraging the development of adequate pension programs in the private sector, making sure the portability and vesting provisions allow for the frequent mobility of the American worker from employer to employer.

5. Legislation:

H.R. 4331: We support the House version, which does not discriminate against public employees in restoring the minimum Social Security benefit for all current recipients.

Administration proposals to change CPIW: We are opposed, because of the adverse effect on CSR.

H.R. 2445: No formal position.

Continuing federal pay cap: Opposed, lowers retirement benefits.

H.R. 4467: We are in favor.

Summary

We are aware of the double dilemma confronting members of Congress currently, as they proceed through the budget process: the need to realign and adjust the budget, under the pressures of inflation; and the need to confront the issue of the crisis in the entitlement programs providing income security for primarily the elderly, disabled, needy and retired, in terms of the unfunded liabilities incurred by inadequate funding and coordination of those programs.

But while we understand, and are even sympathetic to, this double dilemma, we do not think that the Civil Service Retirement System should be a factor in either of these situations—either as the problem or as the solution. Both of these situations have been developing over a long period of time, and there has been ample warning and dialogue within the country as to the reasons and even possible solutions.

We would contend that the CSR offers a possible solid model of the kind of program that should be developed. Its only crisis resulted—if you could call it a crisis and most wouldn't—from the extraordinary pressures of double-digit inflation. Once this factor is removed, things will be back to normal.

Thus, we would encourage the House Ways and Means Committee, as we do all of the committees in Congress, to not only not make any more cuts, but restore the twice-a-year COLA adjustments . . . since the loss of that money to the 25,556 federal retirees, means the loss of nearly $1 million in income in the state of Michigan, and $600,000 in state and local tax revenues in a state experiencing a depression because of the slumping automobile industry.

DECEMBER 8, 1981.

To Whom It May Concern:

Dear Sir, last year I lived 70 percent below poverty. The cost of food goes up every day. We must eat. How can I feed children and keep them healthy, when the necessary cost more than I can pay? I'm not talking about steaks or what I call fancy just necessary like milk, fruit and fresh vegetables. How can I be asked to tighten a belt I don't have? The bread is being taken out of children's mouths in a country called "Land of Plenty."

Thank you.

AUDREY STROBER.

SAGINAW, MICH., *January 3, 1982.*

JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means,
Washington, D.C.

DEAR MR. SALMON: I wish to present comments by this letter, to The Committee on Ways and Means, on the Impact of the Administration's Budget Cuts, the topic of recent field hearings held by the Committee. I am writing out of my responsibility as a concerned American and from the understanding gleaned in my personal experience as a lawyer for the poor for eight years and as a student of American society, as a minor participant in public process, and from my acquaintances and friendships with persons in public office, persons involved in community endeavors, and persons suffering the humilities and injuries of poverty.

It is clear that cuts in public assistance, social services, and aid to the disabled are already threatening the physical survival of many people. Even if dollar levels of benefits were to have remained the same, the economic climate over the past few years has exacerbated the suffering of many. Subtracting the dollar value of food stamps from welfare benefits would be the effect of including that value in "income" used to determine public housing rents. Neglect of public housing, bad enough in the last decade, will not only constitute waste and abandonment, virtually, of the existing public housing across the country, but it will cause deterioration of one of the most successful and equitable of all benefits for the needy. Housing codes in urban America are honored primarily in the breach, it is clear that the private market has not and will not provide the housing needed by millions of the poorest Americans. Many of the results of this unmet need are subtlely multifaceted: poor nutrition for schoolchildren and inability to enjoy stable school attendence; actual loss of food purchases, through spoilage; emotional damage to children and adults without the resources to provide for family needs; breakup of families—one of the tragedies of poverty in privatistic America is that the poor are most susceptible to loss and deprivation of the little resources thay have to survive on, through consumer fraud, appliances which break down, theft by landlords acting unlawfully, with virtual impunity (prosecutors are never concerned with these 'civil' wrongs) who simply take tenants property, put tenants out without notice of lawful court action, steal tenants' security deposits, shut off utilities without right or warning, force tenants to pay for repairs, and charge inflated rents without even complying with housing code or licensing requirements. (Practically the only assistance such tenants receive is "emergency assistance", already limited in several ways by Social Welfare Departments—however innocent the recipient (or denied applicant, more and more) is of the cause of the emergency need, and poverty law offices—overworked as they have always been now being cut back by thirty per cent or more. (The continuing resolutions have provided funds for legal services at about three-fourths of the 1980 amount.)

Discrimination resulting from racism and sexism (as well as other prejudices including that against handicappers) is still rife in America. Its ways are subtle and many. A downtown hotel, built with federal assistance (to the non-poor) has discriminated, among other things, upon the physical attractiveness of female employment applicants and fired a woman because of her pregnancy, simply due to its visible appearance. The numbers of Blacks and women in responsible positions in business and even government hierarchy are disproportionately low, and recent improvements have more recently been erased. Local government, the professions, business and the very workings of the judicial system itself depend a great deal upon "old boy" networks. Except in the largest urban areas, the willingness and experience of private attorneys to and for practice in private civil rights claims are often nonexistent. Persons who have belonged to the classes of victims of discrimination in American society are the most frequent and worst hit victims of poverty.

The current policies are aggravating previously existing problems and inadequacies in the welfare system. As you must know, the real value of welfare benefits has decreased substantially in the last ten years or more, more than the decline in real income generally. Those families of working persons with decent wages or salaries which have begun to suffer financial need in the last two or three years have income well above the legally defined 'poverty level.' The latter have rarely even been eligible for welfare benefits—and while a varying combination of ignorance, racism, sexism, injured pride, mistreatment by public officials, budget mismanagement and overextended credit, as well as true need have caused these "middle income" people to complain, cuts in public assistance programs affect those with even lesser resources, who in fact are the poorest group in our society. It has been long the case that some Social Welfare Departments abide an unwritted policy of harassment and miserliness in the face of entitlement, terminating benefits to all recipients, or those who are disliked, on minor failures to provide information of which Departments are actually aware or can obtain, or upon malicious heresay of recipients adversaries. Such incidents, along with self-imposed and emotionally disturbing hardness will be and already are the result of the current policies. The reexaminations of disability payments under the Social Security Act, begun in the last Administration are having devastating effects (including several publicized suicides by persons as thoroughly disabled as when they first applied who have been deprived of benefits.) Michigan has had General Assistance benefits for poor persons without connection with the work force (being never employed long unemployed or unemployable) and without dependent children and parental deprivation, or with uncertified disability. These are among the most destitute, most tragically poor individuals in our society; most of them unable to provide for themselves; unable to find employment. The most obtrusive of these persons include the homeless persons who roam America's city streets—and its prisons and mental institutions although even the latter have frequently been emptied on retraction of public funds, without funding of any appropriate alternatives.

Of course, one of the few resorts for aid for persons whose disability benefits (Social Security or SSI) have been terminated on insufficient reexamination, automatically done has been legal services for the poor, the ability of which program to aid such persons has been drastically reduced, and threatened with further reduction or elimination. These aid situations, as well as similar challenges to local Social Welfare offices constitute the vast majority of cases, indeed I would guess nearly ninety-nine percent or more of the reputed "lawsuits against the government" touted by the conservative caucus and other enemies of legal services. Of course, these cases are administrative hearings, if pursued at all; and deal with mere following of written regulations; insofar as adjudication is provided by the Departments themselves according to administrative procedure, the hearings might well be deemed a form of internal quality control—unfortunately requiring the initiative of the very persons injured to call for any examination. As you may know, this need is the cause, in part, of a great number of Americans not even receiving the benefits to which they are entitled. In addition many Americans do not know of the basic programs, though eligible; do not know how to deal with the welfare system from the beginning, or cannot afford or obtain decent and stable enough residency to be a[illegible] to provide the prerequisite conditions for assistance; or are undesirous of rec[illegible]ng aid. Of the latter, I believe many are instead inhabiting American streets, prisons, jails and other institutions. There are many persons in America with no residence at any one time. One of the great illusions about the poor in America is that they are a thoroughly identifiable, even constant group of persons. Actually, those who qualify for public assistance are a constantly shifting group, made up of abandoned mothers and divorced mothers and children, beaten wives and children, seasonally unemployed workers, the working poor—who cannot maintain themselves and their families on the minimum (poverty) wage, typically without any fringe benefits—including health care, and others who for part of any given year are unable to support themselves. In fact, the welfare system already requires these persons to impoverish themselves further by divesting themselves of assets of no use except as household property for themselves.

A new provision of law deprives a person receiving public assistance of suing for and retaining money damages in a court of law, for civil wrong done to her or him. Again, ordinary rights and entitlements are removed from the most destitute members of our society, ultimately denying them simple equality under the law. In one situation where litigation was required, due to the intransigence of landlords and their attorney, the accumulated hardship of poverty was succinctly evidenced. The tenant was evicted for nonpayment of rent, with a $300 judgment. The tenant asked the landlords to hold on to her property so that she could come back for it; but the landlords refused to give it back unless she paid the judgment, which was impossible for her. The property included a stove and washing machine with virtually no resale value and a substantial amount of clothing, some acquired while the emotionally troubled woman, abandoned by her husband, with several children, tried to build a career in education. The landlords refused to return the possessions, which were exempt from execution and held contrary to law (again a situation which the police and prosecutors perennially ignore)—and the attorney they hired to answer a letter of demand reiterated this same adamant stance, explanations of the law and the practically of the situation notwithstanding. The landlords disposed of all the property, by garage sale, trash collection and retention for use in their tenements. A lawsuit was brought, the landlords and attorney retaining their recalcitrance to the end, a mistrial being declared due to the tenant's physical condition, directly after which she fell unconscious in court. The case was then settled for about $300, the landlords and attorney accusing the tenant and her attorney of costing them hundreds in attorney fees! The settlement was paid, ostensibly to compensate the tenant for the loss of her property—she has not been able to replace the stove, among other things and was forced to prepare food with a hot plate. But the landlords promptly informed the Department of Social Services that they had paid the sum; and the woman was directly cut off the assistance rolls, without an explanation being allowed by herself. She remained off until the sum was used at the rate of her grant, at that time under the General Assistance program. Under the rules of the latter program, it proved impossible to restore to the woman the small compensation, well grounded in the law of wrongful execution and conversion, she had sought through over a year of legal controversy. This case, in its distinct features and in its composite effects, is typical of the lives of many poor persons in America.

The narrower definition of eligibility for General Assistance will and has resulted in the increase of homeless, resourceless persons. These, and many other impoverished Americans are becoming desperate in their circumstances. In diverse respects, the Administration's plans will and already are increasing the number of Americans in critical need. Food stamps, for instance, never were adequate to provide nutrition for a family receiving public assistance and in the last few years, things have certainly not improved. Apart from prices alone, the "suburbanization" of America has proceeded, taking supermarkets along with other basic suppliers miles from the inner-cities where the poor and especially Blacks, Chicanos and other minorities are concentrated. Integration in housing has not increased, and remains as a pervasive economic differential with invidious effects—such as higher prices for goods of less quality, including housing itself and, of course, higher costs of transportation. In addition, the likelihood is that such things as delivery of necessary utility services becomes more costly as the suburbs grow, and that it is the poor, who spend almost all their funds on necessities, who bear the disproportionately higher portion of this cost.

The services being cut back include the very services directed to the poor, and as well, the public services which the poor use most, such as public transportation and child care. A poor person may have to pay an acquaintance an unwarrantedly high fee for a ride, and spend an inordinate time for a small task. This includes the employed poor, working for a fraction of, say, an autoworkers wage, with few benefits. A day spent with poor families in any of America's "ghettos" might persuade many persons of an undiscovered empathy for the spirit, strength, intelligence and forebearance of millions of Americans who are in need, through no fault of their own. (See William Ryan's excellent book, "Blaming the Victim," rev ed (NY: Random House, Vintage Books, 1976).)

I could write a great deal more, about elderly persons unable to pay for heating fuel, fretting guiltily at near eighty years because of their inability to pay for credit purchases, of poor homeowners being bilked through secondary mortgage market schemes rendered virtually lawful by the elimination of interest ceilings, manipulated by mortgage brokers who will cause a borrower to become incorporated in order to charge up to 25 percent APR (although such rates are now legal, where such a "broker" employs a middleman broker to advance the loan, who is an approved lender)—and charge the homeowner for the "attorney fee"! The FTC and the laws behind it have not done enough, and of course can only do less and less in the current web of events. As you may know, block grants have been sorely abused by local government in alliance with locally "big" business, to siphon off public funds where the organized desire and greed, not the need, is greatest. Perhaps you should find out how many towns experience the chamber of commerce under the wrapper of "local government". (You might start with the electoral campaigns.)

One of the tragedies of the policies of this Administration is that there are tens of thousands or more of Americans who dearly wish for the opportunity to serve the public interest, to serve in various institutions which nearly only government can create and operate to help build a better life for the average American, to help Americans in need, to provide professional services and programs without the intervening motivation of profit, to construct a better society, with a richness of identity outside the private spheres of individuals, each for themselves. There are technicians, engineers, physicians, lawyers, planners, teachers, environmentalists, and persons of undescribably varied talents and good will who simply wish to work for the whole, for the people, without putting something on the market. Some are capable and eager to produce goods in the fashion of a public monopoly, such as already exist across the land, in the form of regulated utilities, railroads and government services. But the latter are shutting down. (Mental health in this country is bound to tailspin.) And the opportunity to serve is evaporating.

I graduated from law school in 1973 and spent two years in VISTA. My salary, on the basis of a forty hour week, is three dollars less than the $13 per hour pay of a UAW worker, but that does not bother me. I hear that starting salaries for lawyers are up to one and a half to twice that; but my desire is to serve those in need, not to set out my "capital" at risk for a profit. I believe that more Americans by far want to contribute to something productively than to compete against something, making sport of society and life. But the current government of the American people has enhanced the struggle between those who have and those who have not.

Respectfully submitted,

ANDREW TIERMAN.

WARREN, MICH., *December 11, 1981.*

Congressman DAN ROSTENKOWSKI,
Chairman House Ways and Means Committee,
Washington, D.C.

DEAR SIR: On Dec. 8th, 1981, "The House Ways and Means Committee" held a hearing in Detroit, Michigan, on the effects of President Reagan's economic policies.

I would like to have had the opportunity to testify before your committee, but was unable due to the lack of prior knowledge regarding it and the lack of time so that I could make the necessary arrangements to appear.

I am one of the people who has been hit very hard by Reagan's economic cuts in the entitlement programs. The following is a brief history of my problem and condition which I believe is very well documented. I know I am only one of many who are going through this ordeal because of these cuts.

First of all, I am 43 years old, married, and have one son 15 years old living with my wife and me in Warren, Michigan. In February of 1974, I was injured at work, had back surgery in March of 1974, and was recovering as well as could be expected, considering the surgery. In May of 1974, I was struck from behind by a drunken driver in a pickup while driving my car. This accident caused me to become injured to a further degree, because of the two month period since my first surgery. All repairs done during the first surgery were undone, and the accident caused considerably more damage to my back and legs.

The consequent medical treatment I have had has been tremendous. Two more back surgeries, one in 1975 and one in 1979, eight nerves burnt off in my back in 1976, three body casts, manipulations under anesthetics, cortisone shots, steroid shots, braces, traction, electronic nerve stimulators, and constant pain medications. In addition, I have suffered considerable emotional problems because I have been unable to do the normal things with my family and eight grandchildren that a person my age should be able to do.

I was first awarded Social Security disability benefits in 1974. I was reviewed frequently up through 1977, and was always judged as "still disabled." June, 1981, I was reviewed again and the Disability Determination Service and Social Security Administration said that they feel I was able to return to work in March, 1981, although my condition had not improved. I was cut off of benefits as of Sept. 3, 1981, having never been examined by any doctor who determined that I was at anytime employable at any job. I am told by doctor's and lawyer's alike that I was probably cut off because of my age. Is this not age discrimination?

After living on Social Security disability for seven years, I have had to sell some of my families possessions and apply for welfare benefits and Aid to Dependent Children.

I applied for my reconsideration in Sept. 1981, and was determined to be able to return to work as of March of 1981, according to the decision of the reconsideration ruling in November, 1981, based on reports from my doctor and hospital reports of my last surgery. Because of Social Security's refusal to reinstate me on disability, I now have to hire an attorney to represent me at a hearing before an administrative law judge. If I win my case, which I am sure I will, the attorney could receive up to 25 percent of all of my back benefits. I have no choice but to obtain a lawyer, which I have already done, because I have been told by a number of legal people that the administrative law judges look very unfavorably upon people who do not obtain legal representation.

I feel very strongly that someone in our government, possibly someone on your committee, should bring about legislation that forebids the Social Security Administration from cutting off of benefits without first sending the disabled person to a doctor of the Social Security Administration's choice and at the expense of the Administration. I also believe that making such decisions which are retroactive should be prohibited unless the individual has been examined by a doctor who has determined that this person is capable of substantial gainful employment.

I am enclosing copies of the reports upon which the Social Security Administration has supposedly found me able to return to work, and letters and reports from my doctor stating what he believes. I also have contacted offices of both Senators Carl Levin and Donald Reigle, along with the office of Congressman Dennis Hertel, who are at the present time looking into this matter. I hope that somehow, this letter and information will be useful to yourself and your committee in planning and enacting legislation for the protection of the people who find themselves in this position in the future. I feel it is very unfortunate that certain American people are discriminated against because they were disabled at a young age.

For the record I would like you to know that at the time of my injury in 1974, I was making an average wage of $400.00 per week. My wife was also working and making a wage of $220.00 per week. My wife later had to give up her job in 1977, because of the state of my mental condition. I was having a very difficult time being able to adjust to the fact that I would no longer be able to lead a normal and productive life.

I do believe that anyone on disability Social Security should be reevaluated from time to time. I also know that there are people receiving disability that should not be receiving it. However, there must be a way to weed out these people without dehumanizing individuals and causing the truly disabled the emotional and degrading experience of going on welfare or using up all of what they may have saved up to survive.

After you have finished with this letter and attached reports, I would like you to send them on to President Reagan, and ask him if he would like to go through the emotional stress and degrading experiences that my family and I have gone through since being cut off of the benefits to which my doctor and I feel that I am entitled. Also ask Mr. Reagan to write to me and tell how to explain to my eight grandchildren that Grandpa and Grandma can't buy any gifts for Christmas because welfare does not consider this a necessity for day to day living, and also why even though grandpa is young why he can't do the things that a normal grandfather does with and for his grandchildren.

Please point out to President Reagan that the disabled person, young or elderly have so much to look forward to, after all 1981 was designated: "The International Year of the Disabled."

Thank you and your committee for your concern and consideration. If I can provide you with any additional information whatsoever, please do not hesitate to contact me. I also would appreciate hearing from you or the committee regarding the Committee's thoughts, concerns, plans, and proposals in this matter.

I hereby authorize you to release any or all of this letter and attached reports to anyone in the United States Congress or Senate, who you feel may be interested in the information for use in consideration of pending legislation.

Sincerely:

JOHN A. WINTER.

[Attachments have been retained in the committee files.]

STATEMENT OF ACCESS LIVING OF METROPOLITAN CHICAGO

We are appalled by the proposed Human Service cutbacks and need your assistance in determining this country's priorities.

If cost-effective programs are a priority and if long-range planning is considered, then we expect you will continue to support the funding of vital human services programs.

The many programs which provide services for the disabled—from home services to independent living programs to special education—are investments of the taxpayers monies. Like the capital investments of business corporations, our federal funds provide programs which help the disabled develop their own skills as well as teh community resources they need to take responsibility for their lives, and hopefully, contribute to society.

Disabled persons have worked hard during the past ten years to develop the resources, legislation, and organizations which enable the disabled to live independently. The proposed budget cuts threaten to undermine these legislative efforts of current appropriations. Current appropriations reflect long-range cost effective measures which recognize the value of human life. The proposed budget cuts on the other hand, will not only reverse many significant accomplishments such as the development of Independent Living Centers, but also create compounding problems (i.e. health care costs, mental health problems, crime) and additional financial responsibilities for the taxpayers and legislators.

Access Living of Metropolitan Chicago is one of over 140 independent living centers in the country. The majority of our monies are federal funds administered through the Department of Rehabilitation Services. Our Center provides services aimed at de-institutionalizing disabled persons. Through our advocacy involvements we also work to improve the life options of disabled persons.

Our clients exemplify the usefulness of our programs. Our records indicate that it cost the taxpayers at least $1400.00 per month to fund a person in a nursing home. With supportive services such as personal care assistance, disabled clients are able to live more independently for much less money. The Paraquad Center in St. Louis has documented even more drastic savings in the following case. (See Attachment #1).

Medicaid (Public Aid). The state-generated spend-down is directly tied to the federal budget cuts. Consequently, people with high medical expenses (especially many disabled) are required to spend a minimum amount (averaging about $600.00 every six months) on medical expenses in order to qualify for public assistance. In most cases, a disabled person does not even receive enough income to expend this designated amount. Thus these policies ultimately preclude many people from using:

(1) Transportation through Medicars. This will be impossible since Medicar companies bill people immediately between trips.

(2) Vital Therapy such as occupational therapy and physical therapy.

(3) Supplies such as a leg bag tubing, sterile and non-sterile gloves, external catheters.

In-home supportive services (IHSS). IHSS has an established ceiling on the volume of clients they will serve. Consequently, new clients are placed on a waiting list until someone else dies or their condition is resolved. Current recipients who do not receive adequate financial benefits will be forced to move into institutions, at even greater expense than the supportive services.

Title XX monies deal with a variety of social services needed by the disabled. Existing clients who qualify for 100 nursing care visits are extremely threatened by the impact of the cutbacks. They fear a reduction of visits and competition with new clients.

Educational programs. Since only subsistence funding is recommended, areas such as special education and vocational rehabilitation will receive low priorities. Educational programs enable the disabled to develop the necessary skills and knowledge to create life options and live independently. Programs such as Independent Living Centers are critical to continue building a network of support for the disabled.

Transportation related to section V. Since no monies are proposed, the elderly and disabled face further limitations.

Funding of the Architectural Transportation Barrier Compliance Board. Proposed funding is unclear. This cutback threatens a long-drawn effort to creat an accessible environment.

In conclusion, we stress that further budget cuts will only add to this nation's problems as the years pass and present needs develop into crises.

Thank you for your consideration of our information.

INDEPENDENT LIVING SAVES TAXPAYER DOLLARS

This comparative cost breakdown of independent living vs. dependent living was provided by Mr. Max Starkloff, Executive Director of Paraquad, an independent living center in St. Louis, Mo. It is based on data about a client of Paraquad, who had spent 10 years in a St. Louis hospital. Through independent living training, Ms. X now resides in her own apartment.

Yearly Dependent Living Costs (to Taxpayers):	
SSDI	$2,659.20
Medicaid	11,983.25
Hospital	28,000.00
Total	$42,642.45
Yearly Independent Living Costs (to Taxpayers):	
SSDI*	2,659.20
Personal Care Assistant	3,600.00
Motorized Wheelchair**	540.00
Medicine	564.00
Medical Supplies and Wheelchair: Repair (pd. by Medicare/Medicaid)	996.35
Rent (Federal Subsidy)	4,872.00
Total	13,231.55
Federal and State Subsidized Funds Saved Per Year Through Independent Living	729,410.90

HIGH/SCOPE EDUCATIONAL RESEARCH FOUNDATION,
Ypsilanti, Mich., February 24, 1982.

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means,
Longworth House Office Building, Washington, D.C.

DEAR MR. SALMON: In December 1981 I was a group facilitator at the Michigan White House Conference on Children and Youth. Enclosed are the major resolutions that came out of the 4-5 hour session. Participants requested that the report of their deliberations and discussions be sent to you in response to your recently held hearings. Enclosed is a copy of our resolutions. Earlier, I requested that the director of the Michigan conference, Shirley Tate of the Michigan Department of Social Services, send you a copy of the full, final report.

If we can be of further help, please let me know.

Sincerely,

John E. Kyle,
Policy Associate Center for the
Study of Public Policies for Young Children.

Enclosures.

RESOLUTIONS

PREAMBLE

We believe that children are our most important resource and that parents are their primary teachers and caregivers. We believe in lessening any real or perceived gulf between parents and professionals. We believe in respecting and maximizing the responsibility that individual parents and families are able to achieve.

Recognizing the importance and value of all children without regard to race, creed, sex, income, or physical or mental characteristics and abilities, we need to direct our attention to the development and nurturance of children. Mechanisms should include both the recognition of parental responsibilities and rights and the need for the availability to parents of publicly and privately funded resources and services. Access to resources and services should be equitable taking into account several factors including need, geography and population centers.

We deplore the budget cuts that have reduced programs and services to children and their parents and families and recommend the maintenance or restoration of cost effective, coordinated, preventive services. Research and analysis should continue both in terms of meeting service needs and in terms of meeting service needs appropriately, effectively and efficiently. Both new, existing and restored services should require efficiency and accountability from providers and from appropriate units of government (e.g. Michigan Departments of Education and Social Services and U.S. Departments of Education and of Health and Human Services).

In light of this preamble, the following resolutions and lists of actions were adopted:

Resolved, That Michigan and federal decision-makers recognize that investment in quality early childhood programs (which involve parents) has been shown to save society money, immediately and in the long run; and that they make policies accordingly to provide funding for government-sponsored quality early childhood programs adequate to meet the need.

ACTIONS

(1) Reestablish the Office of Preprimary and Family Education within the Michigan Department of Education.

(2) Continue the funding of Michigan's Community Coordinated Child Care groups (4-C's) on a consistent, stable basis in order to maintain their information, referral, training, volunteer, and parent education and support components.

(3) Make sure that day care is available for all parents who are employed or in training (note in particular that availability of such care to the working poor has been proven to cut welfare costs).

(4) Restore federal standards for services to children.

(5) Restore federal support and incentives for training of personnel providing services to children.

(6) Restore cuts made in Title XX.

(7) Make sure that quality care for children is available at night to meet the needs of parents who may work at night.

(8) Establish a Michigan child care tax credit for parents.

(9) Publicize broadly the availability of the federal child care tax credit for parents.

(10) Use Head Start as a model for services to children of all ages in regard to such areas as health services; nutrition services; parent participation in budgeting, hiring, program development and policy making; analysis of need; and required training.

(11) Recognize the importance of and restore to full force food and nutrition programs for children of all ages.

(12) Use and recognize the value of various forms of services for children, including but not limited to group day care, family day care, nursery schools, in-home care, co-operatives, schools, public programs, private programs, non-profit programs, profit-making programs.

Resolved, that Michigan and national leaders recognize the benefits of parenting education that they support the preventive, parenting programs by maintaining or restoring the funding for services such as Community Education, School Curricula, Family Living Education and Child Abuse Prevention Services.

ACTIONS

(1) Re-establish the Office of Preprimary and Family Education within the Michigan Department of Education.

(2) Emphasize parent education and services for parents.

(3) Emphasize parent involvement in program development, policy making, and service delivery.

(4) Encourage parenting education and comprehensive life skills training in all school systems at both the junior high and senior high levels.

(5) In establishing needs and priorities for parents and families, look at what families are really like, not just at the traditional nuclear family of a working father, mother at home and two children.

(6) Coordinate the activities and goals of preventive services, protective services and family living.

Resolved, that private, corporate and voluntary initiatives in support of children and their parents and families be encouraged.

ACTIONS

(1) Develop a system of volunteers to adequately support professional parental caregiving including greater incentives for volunteers (e.g., training; enhanced tax credits for mileage and for time spent volunteering; coordination at the local, state and national levels).

(2) Use state and local public funds as seed money with which to attract private (corporate and foundation) support.

(3) Use state data in the various departments of government to back up proposal requests to the private sector.

(4) Develop a state coordinating committee to work with corporations, volunteers and the private sector in aiding the development and nurturance of children.

(5) Enhance federal and state tax credits for businesses which support child care and/or other family support mechanisms for their employees and/or the public.

(6) Make the Michigan tax credit for businesses effective for a longer period of time and publicize it more broadly.

(7) Encourage union support of and involvement in programs for children.

(8) Develop a publicity campaign to demonstrate and recognize the professionalism and value of the early childhood/child care field and its workers, caregivers and teachers.

SAGINAW, MICH.

JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means,
Longworth House Office Building,
Washington, D.C.:

DEAR MR. SALMON: These comments represent my personal and professional observations about the deleterious effects of the Reagan budget of fiscal year 1982. Personal observations are made as the President of the Saginaw Valley Epilepsy Association in Saginaw, Michigan, and a consumer of health services. My professional comments are made in my capacity as a community organizer for Saginaw Neighborhoods, Incorporated, a Community Development Block Grant funded organization also located in Saginaw. The comments are interchangeable for the purposes of my own continuity, and I hope that they are continuous to you also.

The questions about the Reagan budget asked by Representative Rostenkowski were grouped by me into three categories, according to what words were first in the sentence. I. Lives and Well Being of Individuals; II. Stability and Adequacy of Programs; III. Capacity of state and local governments.

I. Lives and Well-Being of Individuals

Systematically, the Administration has done or is doing away with the programs in service to and participatory by the handicappers of this nation. Work incentives are being reduced due to lack of funding for agencies that provide them access to buildings, jobs, and other things that the temporarily able bodied take for granted. The President's Committee for Employment of the Handicapped, the U.S. Civil Rights Commission, and "minor boards and commissions" are being cut back, their administrators replaced with those antipathetic to their causes, and the effect of these cuts is to deny the enabling legislation passed by Congress. Most programs that have been instituted by the Federal government have been for the benefit of the "truly needy", and in this case no one is more truly needy (and capable of producing a return for expenditures) than the handicappers of the U.S. are.

Documentation: 1. Reductions in the Special Education System, with further reductions planned. 2. Replacement of head of Civil Rights Commission. 3. Abolition (or proposed abolition) of the A&TBCB. 4. Rumored reduction in committees serving the handicappers. 5. Administration endorsement of reduced schooling of the impaired in favor of schooling the "gifted". 6. Tightening of disability rules by now allowing the environment to be taken into account for disability claims.

These are only some of the Reagan budget cuts and proposed cuts that injure the handicappers of the U.S.

A proposal to cut the funding of the Labor Department would be a detriment to the unemployed, the handicappers, the laid-off, and in fact, would be detrimental to all but the businessmen who would not have to "risk" hiring the unworkable, but would instead receive government gifts for doing what they should do in the first place. The existing employment protections, services, and programs, should not be tampered with, unless it is to increase funding.

Access to health information for all people is in serious jeopardy thanks to the Reagan-Stockman stand on printed materials, brochures, and pamphlets of the Federal government. If the Administration would provide for these services and pieces of information to be provided by private contractors, there would still be no real harm suffered by the "self-help movement", which has, by the way, swept over this entire nation in the last two decades. Our epilepsy self-help group, as other groups and organizations in the nation, depend upon the Federal government to provide unbiased, accurate information about health issues and concerns, consumer issues, etc. the Reagan-Stockman proposal to cut off the printing presses in the last year as well as the next has not resulted in a lack of printing by the most wasteful department in the nation (DOD), but has kept much information about aging, high blood pressure, etc., off of the shelves of hundreds of thousands of Americans who need it.

The Administration is systematically eliminating the means by which individuals can access self-help information through the government. Soon, as the cuts unfold, Richard Richards' plan to have the Republican party take over the production of this important material as to gain the support of self-help movements will be evident. (Pardon the soapbox style of writing).

II. Stability and Adequacy of Programs

What stability? Concerning the handicappers and those disadvantaged served by the Federal government, funding for important programs is coming at a time when many of them, such as CETA, were beginning to have their full effect felt on the American scene.

Neighborhood oriented programs, such as the Community Development Block Grant program, are being cut back, and their resources focused on economic development, not what they were originally intended to be concentrated on. UDAG has been cut to the bone, and this has occurred at a time when the economic resources of cities across this land have to be supplemented rather than emasculated.

In the case of the CDBG program, it seems that the idea of the program is twofold; (1) To provide those with lower incomes the opportunity to have home improvements, area improvements, et cetera, done; and (2) To improve the general attractiveness of the city through rehabilitating its already established buildings, businesses, centers for the handicapped, and other generally beneficial improvements. Although no one will contest the fact that if you build up the city's tax base through economic improvements, there is the possibility that the monies generated will not be as substantial as the overall dollars and cents plus esthetic quality plus overall public utility generated by the "old" CDBG programs.

What money left in the CDBG program seems to this organizer to be given over to what will make the greatest return, business. When the regulations and agencies surrounding the program and working with in are rendered powerless, however, one may be able to see an industrial park in every small town, or public golf courses built in the "public interest" with CDBG money. Since the HUD Section 8 program has been accused of so many extravagances, the CDBG program should have safeguards to protect the taxpayer from abuse. Currently, those safeguards have been stripped away, leaving qualifying cities vulnerable not to the Federal government but to their own infighting, with the most powerful and visible forces winning out by strength of argument rather than need.

Examples of programs that are feeling the pinch due to the Administration's budget cuts and general antipathy toward them are: (1) Protection and Advocacy Service for Developmentally Disabled Adults.

Although the program is well organized and was slated for termination from Federal funding in a few years anyway, the Federal cuts will not destroy them. They will be, pardon the pun, handicapped in some ways if their funds are lost. They make up a small part of the Federal government outlay, and the Reagan attempt to cut it demonstrates the philosophy of the Reagan cuts, which is to cut any social program possible, whether it works or not, and funnel that money into "corporate welfare" or DOD.

(2) Department of Education. Special education is ruled by the enabling legislation and the rules that guide the states in their determinations of need, and the process by which need is determined. Terrell Bell and the President, along with Mr. Stockman, plan to eliminate some of the most necessary categories of impairment, learning disabilities for one. Their attitude is that for too long the impaired have received that attention, and now is time for the "gifted" to receive it. Reagan wishes to see the protections of the handicapped eliminated or reduced, making a cold-hearted and calculating decision on the future of thousands of handicappers.

Since funding for special education programs is determined by "body count", elimination of categories is not warranted unless specific data can be found to refute the data that shows handicapped children need special attention to overcome brain damage, a great cause of learning disabilities. As a person with epilepsy, I can also speak to the fact that environmental factors need be considered in the determination of handicap, as they should be. This holds true for Social Security Disability, another program that the President misunderstands.

III. Ability of States to Manage Programs

The state of Michigan is already in enough financial disarray without the possibility of having to take over the functions of existing Federal regulatory and service agencies. The obvious strategy of the Administration is to "return" the functions of some agencies to the states without transferring the resources to continue these programs. They will be devastated by the in-house infighting in each state. and the protections that these programs afford the truly needy as well as the working poor and middle class will be devastated as well.

Michigan has, however, excellent services and the strongest civil rights laws of any state in the union. given the proper resources and taxing powers, as well as the aid that protectionists economic legislation could give to the auto industry, the state would be able to carry on some of the Federal functions in a more efficient manner than many other states.

Administrative management of programs like Community Development Block Grants would be, in my opinion, easier for the states alone than the Federal government in cooperation with the states. Battles for funding may be fought more easily on the local and state level than against the Federal government at this time, due to the Administration's avowed opposition to Federal programs that compete with the private sector.

I would sincerely like to thank you for allowing me to make these remarks on the Federal budget and its effects. I apologize for the tardiness of the remarks.

Sincerely,

FRANK S. BUBLITZ.

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